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Iran, Iraq Agree Not To Attack Civilians

By Jonathan C. Randal

Washington Post Service

KUWAIT — Iran and Iraq said today that they would respond positively to a call by Secretary-General Javier Pérez de Cuellar of the United Nations for a halt to attacks on civilians.

The attacks have caused more than 900 casualties in the past week.

President Ali Khamenei of Iran as quoted by Tehran radio as saying that Iran would agree "on the understanding that the Iraqi regime must completely abandon its initial acts of bombing Iranian towns."

The Iraqi News Agency said the Islamic Revolutionary Command Council had instructed the foreign minister to accept Mr. Pérez de Cuellar's appeal and to send a memorandum telling him of the Iraqi decision.

A Kuwaiti supertanker, meanwhile, came under air attack Sunday off the coast of Qatar, marking the first time a neutral ship has been hit in the lower Gulf.

The attacking plane was presumed to be Iranian.

The UN secretary-general, citing any civilian casualties, had asked nations to stop all attacks on ships and towns by the end of the year.

There was no indication that either side was calling a halt to the fighting on the ground.

Abdul Fatah el-Badr, head of the Kuwait oil tanker company, said the 294,739-deadweight ton tanker was hit in two oil storage sections. It said the fire had been extinguished and that none of the 77 crewmen was injured.

The tanker, returning to Kuwait, was only 100 miles off the coast of Qatar when it was struck by rockets fired from an unidentified warplane.

It is believed to have been an Iranian plane since Iraqi jets have not penetrated so far south in the Gulf.

The ship sent out distress signals after the fires were extinguished, it said for Bahrain for repairs, according to Gulf shipping sources.

The tanker was off the northern coast of Qatar in international waters at the time of the attack; this is far south of the Iraqi imposed war exclusion zone around Iran's Kharg Island.

The Kazimah is the third Kuwait tanker to have come under attack in a month. If it is confirmed that the warplane was Iranian, it would be the fifth time that Iran has attacked neutral ships in the Gulf in retaliation for similar Iraqi attacks since March against tankers traveling to and from the Iranian oil terminal on Kharg Island.

Iran has never formally admitted carrying out the raids. But it has denied the reports either, and U.S. intelligence sources have confirmed them.

The Iranians have seemed to aim at Kuwaiti and Saudi ships, press (Continued on Page 2, Col. 5)



Prime Minister Margaret Thatcher reading the summit's final communiqué at the Guildhall. From left: Gaston Thorn, European Commission president, Yasuhiro Nakasone of Japan, Pierre Elliott Trudeau of Canada, Ronald Reagan of the United States, François Mitterrand of France, Helmut Kohl of West Germany, Bettino Craxi of Italy.

Summit Nations to Be Flexible In Third World Debt Dealings

By Axel Krause

International Herald Tribune

LONDON — Leaders of the seven major noncommunist industrialized nations ended a three-day summit meeting on Saturday by adopting a flexible strategy on rescheduling Third World debt and a plan to continue pursuing common anti-inflationary policies.

The effect of the debt proposal would be to put pressure on commercial banks and international lending organizations to give developing nations more time to repay loans provided they took measures to improve their economies.

The summit failed to produce new initiatives to deal with protectionism and with high interest rates and budget deficits, notably in the United States. It also failed to set a date for new multilateral negotiations on trade liberalization, as had been proposed by Prime Minister Yasuhiro Nakasone of Japan and President Ronald Reagan.

The final declaration called on the Soviet Union to resume arms

control negotiations and voiced support for commitments to the nonuse of force by both East and West.

Despite the absence of major new initiatives, the participants avoided the open splits that characterized the seven leaders' two previous meetings at Versailles in 1982 and Williamsburg last year.

"Of course we disagreed here. We also produced several steps that some will call only qualified success," a senior West European diplomatic official said Sunday.

"But for the first time in years, at a summit, there was a climate of agreement to move forward on several key issues, that will spill over — and shape — international discussions in the weeks ahead, particularly regarding East-West relations and Third World debt," he said.

Moscow says West wants to negotiate arms control from a "position of strength," Page 2.

Attending the summit were the leaders of the United States, Britain, Canada, France, West Germany, Italy and Japan.

"This time there was no finger-pointing at any leader... The final result was non-spectacular, which is the way summits are supposed to work," a senior U.S. diplomatic official commented. "What counted at the London summit was not the agreements or lack thereof but the process," he said.

President François Mitterrand of France, who had previously questioned the usefulness of economic summits, said that the summit was "back on the right path."

It was his fourth summit, as it was for President Ronald Reagan.

Prime Minister Margaret Thatcher of Britain termed the summit, her sixth, "valuable, interesting and friendly."

The key agreements reached were the following:

• A call on the Soviet Union to accept the Reagan administration's proposal to "restart nuclear arms control talks anywhere, anytime, without preconditions," as part of the what the summit leaders said reflected their determination "to pursue the search for extended political dialogue and long-term cooperation with the Soviet Union and her allies."

At a news conference, Secretary of State George P. Shultz noted that Mr. Mitterrand planned top-level meetings in Moscow later this month, and British officials said that the foreign secretary, Sir Geoffrey Howe, planned a trip to Moscow in July. "Lots of contacts are going on, and discussion among ourselves, which is part of a calm, collective approach," to the Soviet Union, Mr. Shultz said.

• A proposal to encourage commercial banks and governments to extend "multilateral" rescheduling of Third World debt "in cases where debtor countries are themselves making successful efforts to improve their position." The current practice is to renegotiate on a year-by-year basis.

The summit leaders said the (Continued on Page 2, Col. 2)

South Africa Detains 37 In Namibia

By Alan Cowell

New York Times Service

JOHANNESBURG — Security police in South-West Africa have detained 37 leaders and supporters of the internal wing of the insurgent South-West Africa People's Organization.

Those detained Saturday included Daniel Tjongarara, the deputy chairman of SWAPO, and Nico Bessinger, its secretary for foreign affairs.

The guerrilla group they belong to is battling South Africa for control of the territory, which is also known as Namibia.

Another detainee, 41-year-old, was said to be a member of the SWAPO's armed wing, the People's Liberation Army of Namibia (PLAN).

The timing of the detentions seemed unusual since Prime Minister P. W. Botha is touring Western Europe, where he has apparently been trying to assure British, West German and other leaders of his country's sincerity in seeking a settlement in South-West Africa.

A U.S. Embassy spokesman said in Rome that South Africa and the United States would discuss Namibia during Mr. Botha's visit to Italy, Reuters reported. The State Department's under secretary for African affairs, Chester A. Crocker, will meet with Mr. Botha.

The detainees, held under legis-

(Continued on Page 2, Col. 7)

Scoring Summit Points Through Caution

By John Vinocur

New York Times Service

LONDON — Economic summit meetings have often produced winners and losers. The key factors have been the agendas set up by the leaders themselves, and how their performances turn out on the issues they earmarked as important to emphasize or to avoid.

The meeting that concluded Saturday was characterized by the presence of five leaders who essentially looked to skirt possible difficulties, and to go home to their constituencies without losing face or carrying controversy along with them.

In the case of France, Britain, West Germany, Italy, and the United States, this cautiousness relates to the European Parliament elections being held in the European Community countries over the week-end, and to the U.S. presidential campaign.

By contrast, François Mitterrand of France and Yasuhiro Nakasone of Japan made important policy announcements at the Williamsburg summit conference last year, signing a security document that brought each country closer to the U.S. view of the global security balance.

As a result, both men confronted sharp criticism from their domestic political opposition.

This time, circumspection appeared to replace important risk or

major change; winning and losing in London was a matter of a degree. The following is a rough scorecard, setting out how the individual countries did in relation to the aims they set out for themselves:

• Britain. Prime Minister Margaret Thatcher had all the natural advantages of organizing the conference to fit the needs of British public opinion. Before the meeting, British officials said they would try to get a strong statement on terrorism from the summit, including measures that would blacklist diplomats involved in state terrorism.

But the summit's terrorism statement was vastly less specific and binding than the document produced on air piracy by the Bonn summit of 1978. It did not use the word "recommendations." Rather, it employed the vague expression "proposals which found support in the discussion" to describe a call for greater cooperation among the participating countries.

• United States. President Ronald Reagan's biggest success was to avoid specific criticism of the budget deficit and high interest rates in the final communiqué. A working draft of the final communiqué singled out the problem as an American one, and talked about "down payments" that the administration promised to make to alleviate the

deficit. But by the time the final document was produced, the uncomfortable specific references had disappeared.

Mr. Reagan could be pleased that the communiqué had echoes of his style of economics. It spoke of the need to restrain public expenditure and to limit "rigidities in the labor market," a phrase reflecting American criticism of Europe's inability to restructure its industries and create jobs.

• France. Compared to Williamsburg, this summit was a clear success for Mr. Mitterrand. Although unemployment is rising in France and the automobile industry is in a deepening crisis, the French president could go home bearing a statement that "recovery can now be seen to be established in our countries." The line might be a useful international shield against attacks by the political opposition.

Mr. Mitterrand could also try to enhance his reputation in the developing world by insisting that it was France that pressed most strenuously for more flexibility toward the Third World's debt problems. In addition, the conference's support of "extended political dialogue" with the Soviet Union would serve as ammunition against critics of Mr. Mitterrand's trip to Moscow later in the month.

• Japan. Japan's classic aim at

the summits has been to escape criticism of its industrial and import policies. This time, there was little talk about Japanese protectionism and almost no discussion of its supposed unwillingness to open its doors to foreign products.

But the Japanese failed to get a hoped-for date for the start of the so-called Reagan Round of commercial negotiations, which they consider an important factor in developing their long-term industrial policy. The Japanese also brought up complaints about unitary taxation procedures in the United States, but the issue remained submerged and of concern mainly to specialists.

• West Germany. The West Germans came to the conference seeking very little and risking less. They were happy, however, with the summit's declaration on East-West relations and arms control, which were regarded as helpful to Chancellor Helmut Kohl in terms of domestic policy.

Mr. Kohl was also considered likely to profit at home from a summit statement on cooperation to reduce environmental damage. The statement makes the Christian Democratic government look active on ecological measures, by stressing the importance of a conference on the environment sponsored by the United Nations.

(Continued on Page 2, Col. 1)



DIFFERING OPINIONS — Anti-nuclear demonstrators in central London protested against cruise missiles Saturday while a banner declared support for Ronald Reagan.



Iran Leand serving on the way to victory over John McEnroe in the men's singles final at the French Open. Martina Navratilova won the women's title. Page 19.

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TOMORROW

- U.S. commando units formed in recent years have taken part in rescue efforts and covert operations in Central America.

Death Toll At Amritsar Rises to 450

By William Claiborne

Washington Post Service

NEW DELHI — As security forces continued to sweep through the northern Indian state of Punjab Sunday rounding up Sikh extremists, the official death toll in Wednesday's army attack on the Golden Temple in Amritsar rose to at least 450.

There were reports that many more may have died.

The entire state has been sealed off to foreign journalists, and information about the assault on heavily armed Sikh separatists in Amritsar has been tightly controlled by the government. But there have been persistent reports from Punjab that the official report that nearly 400 Sikhs and 55 troops were killed may be low and that the actual figure may reach 1,000.

The commander of the army's assault on the Golden Temple, Major General R. S. Brar, said on state-run television Saturday night that bodies were still being recovered from basements, bunkers and utility manholes that had been converted by Sikh guerrillas into firing positions and that the actual death toll is not known.

But a prominent Sikh historian and member of Parliament, Kushwant Singh, quoting an Indian official who visited the Golden Temple, said that more than 1,000 persons died during the assault and that the government was suppressing the information for fear of Sikh reaction.

"What the government is putting out is not the truth. I don't know how long they can keep this secret," Mr. Singh, a member of Prime Minister Indira Gandhi's ruling Congress-I Party, said Sunday.

Mr. Singh, author of several books on Sikhs and a widely read newspaper and magazine columnist, said the dead included at least 600 followers of Jarnail Singh Bhindranwale, the fundamentalist Sikh preacher who led the separatist movement and who was killed in the attack on the temple. The

(Continued on Page 2, Col. 2)



Sikh women in New Delhi on Sunday protested the assault on the temple in Amritsar.

Olympic Torch Ignites Patriotic Feelings in U.S.

By Andrew H. Malcolm

New York Times Service

LOOSE CREEK, Missouri — The relay runner, streaming with sweat, slows at the end of his leg. Night or day, there is always a crowd in a front yard or at a rural intersection to watch the roadside exchange of the flame for the next section leading up to the Los Angeles Olympics' opening ceremonies July 28.

But something unplanned is also happening as the Olympic torch makes its way across the United States, through places like rural Missouri, communities like Useful, Linn and Knob Noster, Union, Sedalia and Fessett. It is igniting feelings of patriotism.

After the torch-bearer has passed on the flame to a new runner, someone begins to hum or sing softly. Sometimes the song is "The Battle Hymn of the Republic" or the national anthem. At other times, there is just a prolonged cheer, or a whispered exchange between one spectator and the runner.

"God bless you, son," said an elderly woman, "for making me feel like this again."

Last week the Olympic flame, which originated in Greece and began its U.S. journey in New York City on May 8, made its way from Mississippi up through Tennessee and Arkansas to St. Louis, and across Missouri to Kansas in the fifth week of its 82-day, 9,100-mile (14,730-kilometer) trek through 33 states.

Runners, who each do four-mile stints, find

themselves being assaulted by a range of emotions.

"It's so strong," said Ron Kita, a 39-year-old runner and computer specialist from Granville, Ohio, like all the runners an employee of American Telephone & Telegraph Co., the relay sponsor.

He added: "When the people see that torch, they relate it to patriotism. There's a hunger for that in the land. And for a hero."

Throughout the countryside, there are people every 100 or 200 yards. Runners have become accustomed to rounding a rural bend even after midnight and finding one or two families standing at the end of the lane with a flashlight to shout encouragement.

Some spectators travel from nearby states to see the caravan pass several times. Others are wearing nightgowns and hair curlers. Some people, freshly roused by the flashing lights of police escorts, emerge from where they have been sleeping by the roadside.

The cross-country journey is a big logistical challenge, with 41 vehicles moving, feeding, bunking and cleaning 100 runners and support personnel over an average day's journey of 125 miles.

But little incidents are important to every caravan member. For Bill Morrison, of New York, it was the line of deaf children in West Virginia when the runner gave them the torch to each pass along for a few feet. At the end, the

youngsters' hands burst into a flurry of sign language.

For Steve Cross, of New Jersey, it was the off-duty runners who sighted a boy in an oxygen mask watching from his bedroom window. They took an extra torch upstairs.

Despite the larger crowds in cities, where many companies gave \$3,000 to local charities for the right to have an employee carry the torch one kilometer (0.6 mile), it is in the countryside that the runners find themselves most touched by people's efforts to become involved.

Church bells, fire sirens and truck horns greet runners as they arrive in towns. Some people throw roses, offer beers or run alongside.

"Look at that runner. Honey," a mother urged her daughter, "Look at that runner and always remember him!"

It is heady stuff for runners.

The relay manager, Richard Bochner, said: "The people are making heroes out of people who aren't. But out there on the road, running with the crowd cheering, it's hard to separate the torch-bearer from the torch."

"I'm not sure why I'm here," said Jerri Benson, whose employer emptied his plant to greet the runners. "But I know there's more to it than standing in the sun a long time to watch a guy run by in his underwear carrying a huge match."

In Gray Summit, Skip Haffley took the afternoon off from cleaning houses to watch the caravan and hold up the U.S. flag. "It's America, you see," she explained. "And we love it."

States such as New York and Massachusetts, which have been strongly committed to services for the needy, replaced a large share of the federal cut and enacted new programs of their own.

Some growing states in the South and West barely felt the impact of the federal budget reductions. Arizona, for example, because of its population growth, experienced an increase of 27 percent in federal aid for social programs and highway construction from 1982 to 1984 with only a small decrease in welfare payments to the poor.

The Reagan policies, according to the study, accelerated some trends already under way in the late 1970s, including centralization of many services under state government. Power has shifted to the states from the cities and other local governments, which in the 1960s and early 1970s enjoyed a direct relationship with Washington through the receipt of grants that bypassed the states.

One result of that shift has been (Continued on Page 3, Col. 5)

Trudeau's London Swan Song

Canadian, Soon to Retire, Reflects on Results of Gathering

By Craig R. Whitney
New York Times Service

LONDON — "Well, another summit over," said Pierre Elliott Trudeau, who finished his ninth and last economic summit meeting Saturday with a long-stemmed red rose in his lap.

Next Saturday, his party, the Liberals, will elect a new leader and soon he will not be prime minister of Canada anymore. Was he lobbying here for a new job, reporters asked.

"At least you're not asking me the question you've been asking for the past eight or 10 years — are you going to resign?" he said. "Finally, I did."

"What I want to do is precisely nothing, besides moving to Montreal, buying a car, getting the kids in school, hiring a maid, and that sort of thing," he said. "I don't want to get myself involved in anything, nationally or internationally, so that when I get bored with myself, which may take a long time, I can pick and choose the best offer, if there are any forthcoming."

He spoke as easily in French as in English, answering questions

from his bilingual press entourage. Reflecting on his successes and failures at this summit gathering, he linked them with the "peace initiative" he had taken to world capitals in his last months in office.

Here, he insisted on a separate declaration on East-West relations and arms control by the summit participants, and he seemed mostly happy with the result.

"Just listen to Mrs. Thatcher, one of the hawks last year at the Williamsburg summit," he said, "or to President Reagan, who in Ireland a few days ago said a nuclear war can't be won so it shouldn't be fought. We've come a long way. But I think the window that was open, or half open, in February of this year isn't open any more."

"I thought after Andropov died and Chernenko was installed, there might have been a change, but now Reagan is too close to his elections to get into a serious dialogue with the Soviets. But the language and the intentions have changed."

How would he sum up his 16 years as prime minister? "In these troubled times, I survived, which is not bad," was the reply.

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Prime Ministers Pierre Elliott Trudeau and Margaret Thatcher before the London summit.

Trudeau Angered Reagan in Summit Clash

Reuters

LONDON — President Ronald Reagan angrily rebuked Prime Minister Pierre Elliott Trudeau of Canada in a heated clash on East-West relations at the London economic summit, a senior U.S. official said Sunday.

Mr. Trudeau, leading a personal crusade for détente, incurred Mr. Reagan's wrath when he blamed the United States for the impasse in U.S.-Soviet relations.

"Reagan took his glasses off and said, 'Damn it, Pierre, we have offered, I have said everything. ... What the hell more can I do to get them back to the [negotiating] table,'" the official recounted.

The official, who insisted he should not be named, said none of the other leaders joined Mr. Trudeau in blaming the United States. "He was the odd man out."

U.S. Excuses for Budget Deficit Proliferate

By Steven R. Weisman
New York Times Service

LONDON — Like an unwelcome guest, the subject of the U.S. budget deficit kept appearing at the economic summit conference here despite the best efforts by President Ronald Reagan and his entourage.

Mr. Reagan has practiced perhaps a dozen explanations for why, after years of complaints by other world leaders, the deficit has refused to disappear, and why it may not matter that it has not.

Here is a list of the leading defenses of the deficit called from public statements by the president and his aides, and from reports from inside the private discussions here:

The "down payment" is coming. Mr. Reagan says that Congress is about to approve a three-year package of budget savings worth perhaps \$150 billion. He generally leaves out the fact that, even after the "down payment," the deficit is likely to remain above \$200 billion.

Deficits are not so bad. Mr. Reagan and Treasury Secretary Donald T. Regan insist that there is no proof that deficits have led to high U.S. interest rates. They cite figures showing that when the deficits rose in the last few years, interest rates fell.

High interest rates may be good for you, U.S. officials say that even if the deficit has caused high interest rates, Europe should be grateful. High rates have led to an overvalued dollar,

which in turn has made it easier for Europe and Japan to export goods to the United States. "Our deficit spending has financed their recovery," an administration economics spokesman said.

It's Congress' fault. Mr. Reagan told Prime Minister Margaret Thatcher of Britain the other evening that if Congress had approved all the spending cuts he proposed, the deficit would be \$40 billion lower than it is.

It could be worse. A British official said Mr. Reagan told Mrs. Thatcher that if President Jimmy Carter had still been in office, and had continued with his original economic plan, the deficit would be \$90 billion higher than it is now.

We're having a recovery, so why complain? A senior administration official said that inflation had been halved and the rate of economic growth had tripled under Mr. Reagan, and that this was the thing to keep in mind. Another official said Mr. Reagan had set out to do three things upon taking office: Build up defenses, cut taxes and balance the budget. "Two out of three ain't bad," he said.

The problem is exaggerated. U.S. officials say the size of the deficit is probably overstated. They cite some administration economic projections showing that the recovery will lead to a substantial reduction in the deficit.

You're just as bad as we are. A new explanation is that the U.S. federal deficit is no worse than deficits in Europe as a percentage of each nation's total economic output. U.S.

state and local governments are generally experiencing surpluses because they raised taxes and cut spending during the recent recession. If those surpluses are subtracted from the federal deficit, the total for deficit spending by all governments in the United States comes to about the same proportion of the economy as in Europe. "We're not too far out of line with our deficits, with the deficits of our allies," Mr. Reagan said recently.

It can be managed. Mr. Reagan, in particular, has emphasized in interviews that if there is sufficient growth in the supply of money, the deficit need not damage the economy. Implicitly, he called on the Fed, which oversees money supply growth, to accommodate federal borrowing and private borrowing sufficiently to sustain economic growth without inflation.

But we really do hate deficits. When these explanations fail, presidential aides say that Mr. Reagan falls back on his considerable personal credibility by saying that he has opposed deficit spending throughout his career. Mr. Reagan has seized the initiative by calling on the summit meeting participants to deplore deficits.

In any case, it's a red herring. Administration officials are saying that Europeans are not really that upset about the deficit. U.S. officials say that recent criticism by Mrs. Thatcher and Chancellor Helmut Kohl of West Germany was made for domestic political reasons.

Moscow Says West Wants To Deal From Strength

The Associated Press

MOSCOW — The Soviet Union has reacted swiftly to an appeal by Western leaders to resume talks on nuclear arms control, saying that they "intend to continue the position of strength policy."

The Tass news agency said Saturday that the seven leaders at the London economic summit conference concentrated on political questions to "conceal acute differences over economic matters, the differences which tear the capitalist world asunder."

In a statement on East-West tensions, the Western leaders said the United States had offered "to restart nuclear arms control talks anywhere, at any time without preconditions."

But Tass indicated a rejection of the call for a resumption of the U.S.-Soviet talks on nuclear missiles, saying the West was still following "the position-of-strength policy."

"Thus the summit-endorsed declaration on East-West relations maintains that the West ostensibly is determined to pursue the search for extended 'political dialogue and long-term cooperation' with the Soviet Union and other socialist countries, and to see 'early and positive' results in the various arms control negotiations," Tass said.

But Tass added that the declaration "did not say a word" about the deployment by the North Atlantic Treaty Organization of new U.S.-built, medium-range nuclear missiles in Western Europe.

The Soviet Union broke off the negotiations on nuclear missiles with the United States late last year when NATO began deploying cruise and Pershing-2 missiles to

counter new Soviet medium-range missiles targeted on Western Europe.

Tass also attacked a declaration against terrorism adopted by the heads of government of the United States, Britain, West Germany, France, Italy, Canada and Japan.

It said the summit should have condemned "state terrorism which has become part and parcel of the foreign policy of the United States."

It cited U.S. actions in Lebanon, the invasion of the Caribbean island of Grenada last October and what it called the "undeclared war" against Nicaragua's leftist Sandinista government.

The agency said another summit statement appealing for an end to the Gulf war between Iran and Iraq "is styled in the same spirit."

"It contains a hypocritical call for 'a peaceful and honorable settlement' of the conflict," Tass said. "But at the same time, the countries of the 'seven' threateningly state that they will do everything in their power to promote stability in the area."

Summit Nations Are to Be Flexible With Debtors

(Continued from Page 1)

agreement was aimed at stretching out repayments for developing countries from the present approach, which Sir Geoffrey said "is particularly important with the particular lump of debt which comes in 1985 and 1986," notably in Latin America.

Mr. Mitterrand had pressed hard for stronger language in the communiqué stressing a greater role for governments in helping the Third World debtor countries as part of what French officials described as a "global approach." But he expressed satisfaction with other, related agreements in the declaration. These, for example, committed the summit leaders to "reconsider" a further allocation of special drawing rights by the International Monetary Fund interim committee meeting in September.

● A declaration on international terrorism. While it fell short of specific recommendations, it pledged summit leaders to establish closer cooperation and coordination between police and security organizations, particularly concerning the exchange of information, intelligence and technical knowledge.

● A call on Iran and Iraq to "cease their attacks on each other and on the shipping of other states," which the summit participants linked to their "concern that the conflict should not spread further." The statement also said that the seven governments will "do what we can to encourage stability in the region."

The agreements on terrorism and the call to end conflict in the Gulf appeared bland and fell short of new commitments. However, summit participants vigorously defended the actions planned by Western governments notably on terrorism. "There will be follow-up," said Mr. Shultz during his news conference.

Donald T. Regan, the U.S. Treasury secretary, said that, even though the seven had been unable to agree on a date for starting negotiations on liberalizing world trade, primarily because of strenuous opposition by European Community nations, notably France and Italy, the final communiqué committed the summit leaders to "press forward" with a view to fixing the timing of a new negotiating round

"at an early date." A senior U.S. official said that "we would have liked to see 1986 in there, but we see it as a commitment anyway."

Probably no economic issue triggered more intense discussion than high U.S. interest rates, the U.S. budget deficit and the refusal of Mr. Reagan to accept suggestions from Mr. Mitterrand and Chancellor Helmut Kohl of West Germany, among others, to "do something" about interest rates. President Reagan said that he had stressed there was absolutely no proof linking high interest rates and the budget deficit.

At an earlier news conference, Finance Minister Jacques Delors of France said that six out of the seven summit participants disagreed. Yet Mr. Delors, in keeping with what an EC Commission official described as the "nonconflictual approach" of the London summit, said that European governments would have "preferred a more concrete" recommendation on high interest rates.

At the insistence of Mr. Mitterrand and Mr. Kohl, the statement said only that high interest rates in

summit countries, without naming any country, "could put recovery at risk."

"You cannot expect miracles at these summits and we do have disagreements — we the Europeans and the Americans mainly," a senior French official said. And he predicted that, while there would be continued discussions between EC governments and the Reagan administration over such issues as managing Third World debt, the summit discussions had "produced greater cohesion, greater understanding as well."

The communiqué said that the summit countries attached "major importance" to aid programs in Africa, including a special program being prepared by the World Bank, which France and other EC nations have supported actively.

"These moves, such as the reference to Africa, or the debt rescheduling, while not blockbusters represent little steps and a lot of working together we have not seen at summit before," a senior U.S. official said. "There is a lot less open conflict, and more pulling together, despite the differences."

Poles Arrest Key Official In Solidarity

The Associated Press

WARSAW — A fugitive member of Solidarity's national coordinating committee, Bogdan Lis, has been arrested, the authorities said Sunday. He is the most important underground figure captured since the military crackdown on the union in December 1981.

Mr. Lis, 31, is a friend and former aide to the Solidarity leader, Lech Walesa, who described the arrest as a "great loss."

Mr. Walesa, contacted by telephone at his apartment in the Baltic port of Gdansk, said he met with Mr. Lis about six weeks ago, but he declined to give details.

Mr. Lis was one of five members of the Temporary Coordinating Committee, or TKK. He represented Gdansk, which was where Solidarity began in August 1980.

Mr. Lis, who was expelled from the Communist Party in October 1981 for his union activities, was considered the senior figure in the underground after Zbigniew Bujak. Mr. Bujak, who headed Solidarity's Warsaw chapter before the military crackdown, remains at large.

Polish television announced the arrest of Mr. Lis on its main evening newscast, but it did not say when he was captured.

Mr. Walesa said the arrest was "a great loss because he was a good activist. Still, we can manage."

"To teach them a lesson, we shall put three men on our commission, instead of one" to replace Mr. Lis, he said. "By using this tactic, we shall be able to carry on for another 50 years."

The capture of Mr. Lis followed intense police action to discourage support for Solidarity's call for its 9.5 million members to boycott local elections next Sunday.

Union leaders have called for the boycott because, they say, a big turnout for the elections, the first since Solidarity was created, would legitimize its suppression.

Polish authorities have arrested five previous members of the Temporary Coordinating Committee, but none as well-known as Mr. Lis. Three communist members from the southwestern Polish city of Wrocław were arrested in late 1982 and early 1983, and they are serving prison terms. They are Wladyslaw Frasnynik, Piotr Bednarski and Jozef Fijor.

In December 1982, police arrested Janusz Paluchowski, shortly after he joined the Temporary Coordinating Committee representing the western Polish city of Poznan. He was released from prison last week after he reportedly aggravated a heart ailment with a lengthy hunger strike.

In August 1983, the government announced the arrest of Wladyslaw Hardek, Krakow representative of the commission.

WORLD BRIEFS

Moscow Reiterates Call for Test Ban

MOSCOW (Reuters) — The Soviet Union has reiterated a standing offer to the United States to agree to a ban on underground nuclear weapons tests and has accused Washington of showing no interest in reaching an accord on the issue.

The Tass news agency said Saturday that "in the United States a program of underground nuclear weapons tests is being carried on and, moreover, expanded." It made no mention of Soviet underground tests, although Western experts say these are carried out at the same pace as U.S. tests.

The commentary was taken from the Sunday edition of the Communist Party daily Pravda. Its publication in advance indicated that it reflected Kremlin thinking.

Afghan Rebels Claim Raid on Russians

ISLAMABAD, Pakistan (Reuters) — Afghan guerrillas said Sunday that they had killed or wounded a number of Soviet troops and destroyed more than 35 Soviet helicopters and MiG fighter planes at an air base north of Kabul.

The Hezb-Islami group, which is based in Pakistan, said guerrillas had fired more than 150 short-range rockets and hundreds of mortar bombs in the attack, which took place June 3 at the Bagram air base. No independent confirmation could be obtained.

Some rockets hit living quarters, killing or wounding many Soviet officers and pilots, it said, adding that the runway and other installations were severely damaged.

UN Chief Rejects New Lebanon Force

NAQURA, Lebanon (Combined Dispatches) — The United Nations secretary-general, Javier Pérez de Cuellar, rejected Sunday an Israeli proposal that UN peacekeeping troops serve as a buffer between Israeli and Syrian forces in eastern Lebanon.

"The UN is against anything which would signify directly or indirectly the division of Lebanon. We want to have Lebanon in the hands of the Lebanese," he said. The UN secretary-general, who is on a five-nation Middle East tour, was commenting on a proposal by Prime Minister Yitzhak Shamir of Israel.

In Beirut, Muslim and Christian fighters pounded residential areas with shells and rockets throughout Sunday after a night of shelling and shooting in which two persons were killed and 40 wounded.

In Tel Aviv, tens of thousands of Israelis gathered Saturday evening for a peaceful demonstration against Israel's two-year-old occupation of southern Lebanon and Jewish extremism in the occupied West Bank, organized by the peace movement, Peace Now. (Reuters, AP)

Launch of \$30-Million Satellite Fails

CAPE CANAVERAL, Florida (AP) — A \$30-million international communications satellite tumbled out of control after it was launched over the Atlantic Ocean Saturday. NASA officials said there was no way to save it.

The failure occurred 23 minutes after lift-off when the Atlas-Centaur rocket was in contact with a tracking station on Ascension Island in the South Atlantic. It will take several days to fly the tapes back from the island, according to officials from the National Aeronautics and Space Administration. A review board has been set up to study the failure.

The International Telecommunications Satellite Organization paid NASA \$60 million to launch the satellite, which it had insured for \$10 million. With 12,000 voice channels and two color television channels, it was to have joined 15 other satellites currently serving the 108-nation organization. It was the first failed satellite launch at Cape Canaveral since August 1977, when another Atlas-Centaur malfunctioned.

Suspect Arrested in U.S. Bombings

MINNEAPOLIS (AP) — A 24-year-old man seriously injured in an explosion has been charged with possession of bomb parts in connection with the discovery of more than 20 pipe bombs in three states, authorities said.

Earl Steven Karr was charged Saturday with illegal possession of an unregistered firearm in connection with the discovery of pipe bomb parts in his Minneapolis rooming house room, U.S. Attorney James M. Rosenbaum said. Mr. Karr suffered first- and second-degree burns to his arms and face Friday when a bomb exploded while he was in a rented car outside a restaurant in a shopping center in the north-central town of Mason City.

At a news conference, Mr. Rosenbaum said Mr. Karr may face further charges in Wisconsin and Illinois, the other states where bombs were found. Five people were hurt in the blasts that have occurred since early May. "We have no evidence to indicate that he had an accomplice or was working with part of any organized group," Mr. Rosenbaum said, adding that there was no immediate indication of a motive.

Peru Declares State of Emergency

LIMA (AP) — President Fernando Belaúnde Terry has declared a state of emergency and suspended civil rights guarantees for 30 days because of strikes by teachers and civil servants.

The interior minister, Luis Perovich Roca, said Friday: "The inviolability of the home and the freedom to meet and to travel throughout the country have been suspended."

He said the steps had been taken to preserve public order "in view of the situation provoked" by the strikes, which he said "harm the normal progress of the country." Nearly 170,000 teachers struck last Monday to demand an increase in their minimum wage. They were followed Tuesday by 500,000 government employees seeking pay increases.

Berlinguer's Condition Worsens

PADUA, Italy (AP) — The condition of Enrico Berlinguer, the Italian Communist Party leader, worsened during the weekend and doctors said the 62-year-old politician had virtually no chance of recovery.

Mr. Berlinguer, stricken by a massive cerebral hemorrhage during a campaign appearance here Thursday, was in an irreversible coma, the doctors said. A medical bulletin issued Saturday at the Padua hospital where he was taken said there had been "a worsening in the state of cerebral compression," meaning there was more internal bleeding, which damaged his brain further.

Dr. Flavio Ruzza, chief medical officer of the hospital, said Mr. Berlinguer was in "extremely grave" condition with "much less than a 10-percent chance" to survive.

37 Leaders and Supporters Of SWAPO Held in Namibia

(Continued from Page 1)

lution permitting 30 days imprisonment without charge or trial, had been attending a barbeque to celebrate the release of 54 political prisoners from the Mariental prison camp in Namibia.

The South African authorities, who administer South-West Africa in defiance of the United Nations, have cited the release of the Mariental prisoners as evidence of their good faith in the search for a settlement of the 17-year guerrilla war and independence for the former German colony.

Commentators in Namibia said Saturday night, however, that the arrests seemed certain to harden insurgent suspicions that South Africa was not ready to grant the territory independence on any terms but its own.

The detainees also included Hartmut Ruppel, a lawyer who has worked for SWAPO. Last month his colleague, Mr. Lubowski, became one of the few whites in South-West Africa to publicly declare himself a member of the insurgent organization.

SWAPO is led by Sam Nujoma, who controls an Angolan-based external wing in charge of guerrilla operations. The internal wing operates from Windhoek, although it is not formally outlawed there. It may not hold political meetings because its constitution commits it to seeking violent change.

The detainees' Saturday fol-

lowed a series of bomb and landmine explosions in Ovamboland, the most densely populated area of Namibia, where the guerrilla war is largely contained. Since the start of this month, 12 persons have been killed in explosions, apparently designed by the insurgents to demonstrate that they are a force to be reckoned with despite recent setbacks.

In mid-February, South Africa and Angola signed what amounted to a cease-fire agreement that severely curbed the guerrillas' ability to infiltrate into Namibia from the territory's northern neighbor, which had previously provided the insurgents' sole base.

Since then, South African and Angolan troops, operating jointly, have overseen the withdrawal of South African forces from parts of southern Angola.

■ Nujoma Rejects Proposal

Mr. Nujoma said Saturday night in Washington that SWAPO rejected a South African proposal that five Western nations provide a transitional government for the territory, The New York Times reported.

In remarks at the annual dinner of a Washington-based organization called TransAfrica, Mr. Nujoma also said his group rejected proposals in which South Africa would withdraw only if Cuban troops left Angola. The United States has supported this idea.

The London Summit: How They Scored

(Continued from Page 1)

sored by the Bonn government later in the month in Munich.

● Italy, Italy's success was in avoiding highlighting the deep split involving the two major parties of the government coalition, the Socialists and the Christian Democrats. Prime Minister Bettino Craxi, a Socialist, and Foreign Minister Giulio Andreotti, a Christian Democrat, could say that they worked calmly enough together to help in the European push for movement on Third World debts.

On the Italian asset list was a blessing from the summit participants for an Italian initiative to hold a world conference next year on the theme of turning technical innovation into a producer of jobs.

● Canada. Some summit participants described Prime Minister Pierre Elliott Trudeau, who will retire this year, as moody and distrustful. Not much attention was given to his paper on East-West relations, growing out of his worldwide travels over the year.

Canadian officials took credit, however, for a phrase in the summit's East-West statement that asserted that "East and West have important common interests." They insisted that this was a meaningful broadening of the seven countries' position toward the Soviet bloc. The Canadians also shared the satisfaction of those participants who felt that they had moved the United States on the question of Third World debt.

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Paris, Bonn Officials Honor German Dead in Normandy

The Associated Press

LA CAMBE, France — Under a warning sun at the German war cemetery here, France and West Germany paid homage Friday to those who fell in the futile effort to hold back Allied forces that landed in Normandy on D-Day 40 years ago.

About 200 people, many of them Germans, attended the ceremony presided over by Franz Joachim Schoeller, West Germany's ambassador to France, and Jean Laurain.

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the French minister for veterans' affairs.

The Germans were not invited to the major ceremonies held Wednesday on the invasion beaches in Normandy.

"France and Germany, whose destiny has been marked over the centuries by wars, are today reconciled," Mr. Schoeller said in his brief address at the cemetery, where 21,160 German soldiers are buried.

■ Massacre Commemorated

About 5,000 people attended ceremonies Sunday on the 40th anniversary of the massacre of at least 642 men, women and children in the French village of Oradour-sur-Glane by troops of the German SS Das Reich division. The Associated Press reported. The massacre was in reprisal for Resistance actions after the Normandy landings.

He added, "I know Mr. Bhindranale had been working them for months, but to flush out a rat, you don't bring down the house."

The army command in the Punjab capital of Chandigarh reported Sunday that at least 17 persons, including seven members of the security forces, were killed Saturday in two clashes between paramilitary troops and Sikh guerrillas in the Amritsar area. Eighty Sikh militants were arrested, officials said.

More than 1,200 Sikhs were arrested in 38 religious places during Wednesday's statewide army crackdown, and hundreds more have been arrested since. Most towns and villages in the state remained under curfew Sunday.

Meanwhile, the government remained silent about a reported rebellion Friday among Sikh soldiers in the Indian Army, in which about 100 troops were said to have deserted their post at Ganganagar, in the state of Rajasthan, and crossed by truck into Punjab, presumably on their way to Amritsar.

According to reports reaching Chandigarh, 10 of the infantry enlisted men were killed and 50 were captured near the town of Malout.

■ North Korean Visits Belgrade

REUTERS

BELGRADE — President Kim Il Sung of North Korea had talks Sunday with President Vesselin Djindjic of Yugoslavia and the Communist Party leader, Dragoslav Markovic. Mr. Kim arrived in Belgrade on Saturday on a three-day visit.

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Hart Urges Party Unity Against Reagan, but Refuses to Leave Race

By George Lardner Jr.
Washington Post Service

DENVER — Senator Gary Hart, in an emotional speech to home-state supporters, has made plain that he is determined to carry his presidential candidacy to the Democratic convention. But he emphasized the party's imperative to defeat President Ronald Reagan and pledged to do nothing to stand in the way of that goal.

Mr. Hart, addressing Colorado's state Democratic convention on Saturday, said he strongly believes he would have the best chance of ousting Mr. Reagan from the White House. In his first speech since Walter F. Mondale attained a majority of pledged convention delegates last week, Mr. Hart voiced the hope that he would still be able to win the nomination.

But at the same time, he appeared to initiate the reconciliation process that most Democrats consider essential if they are to have any hope of victory in November.

"Let me put it as plainly as I can," Mr. Hart told the crowd of 3,000. "The defeat of Ronald Reagan is the most important imperative of our party. As Democrats and as Americans, we have a duty

that goes beyond a candidate or a party."

He said this duty was owed to "those who will pay the price of a second Reagan term: the voiceless and powerless, the poor, the elderly, the unemployed and all those who will be condemned to lesser lives in a lesser America...to those American teenagers who will be called upon to pay the ultimate price if a second Reagan term leads to war...to the generation yet to come which will reap the whirlwind of a second Reagan term."

For his part, Mr. Hart said, "I am determined to meet this imperative and I will do nothing that does not advance the purpose of defeating Ronald Reagan. I will do everything to achieve a Democratic victory in 1984."

In a television interview Sunday, Mr. Hart said he would not challenge what he had called "tainted" delegates pledged to Mr. Mondale. United Press International reported from Washington.

Mr. Hart's campaign has said in a complaint filed with the Federal Election Commission that the delegates were won with the aid of independent delegate committees designed to circumvent federal spending limits. Mr. Mondale



Senator Gary Hart

asked the committee to disband but insists their operation was legal.

"It's a legal and ethical question, and not a political one, and I think that's where it should remain," Mr. Hart said. He said he would not challenge the approximately 600 delegates at the convention July 16-19.

In his speech Saturday, Mr. Hart did not mention Mr. Mondale by name, but he did warn that the Democrats would lose "if we are perceived, fairly or unfairly, to be the party of tired solutions, or narrow interests, or old arrangements."

Mr. Hart had accused Mr. Mondale throughout the campaign of just those failings.

Mr. Hart also insisted that his candidacy was still "alive and well" because he had won more primaries than Mr. Mondale and perhaps the greatest number of popular votes nationwide as well, pending a final tally in California.

"I will continue this campaign as a positive alternative for our party because I believe that it offers the best hope for victory in 1984 against Ronald Reagan," Mr. Hart said.

Party Unity Called Essential
David S. Broder of The Washington Post reported from Washington: Allies and former rivals agree that Mr. Mondale's essential task is to repair rifts in the "big tent" of the Democratic Party within the next month.

"This is the critical period," said Robert D. Squire, a Democratic campaign consultant who has not been involved in the nomination fight. "We've got 30 days to get up to take on Ronald Reagan. But if this turns out to be a month of mischief, we can just as well forget it."

Analysts said the party's "big tent" was split four ways during the nomination fight.

• The Rev. Jesse L. Jackson took over the black vote, which is perhaps the "holy grail" of Democratic constituency, winning 70 percent or more of it in the major states.

• Mr. Hart ran well ahead in most states among younger voters, the more affluent and those who think of themselves as independent Democrats.

• Moderate to conservative Democrats who predominate in the South and in areas like California's Central Valley become dropouts as the campaign progressed.

• The fourth group includes those who stayed loyal to Mr. Mondale in most states: the historic Democratic constituency of the elderly, the less-educated, the poor, union workers, Hispanics, Jews and ethnic Roman Catholics.

But as Harrison Hickman, a public opinion analyst for the firm of William R. Hamilton and Staff, said of the primary campaign, "The key lesson is that the core coalition is not a winning majority" for the general election. Democratic pollsters generally calculate the "hard-core anti-Reagan vote" as not much more than one-third of the electorate.

Iaccoca Pushed for Ticket
Mr. Mondale's campaign chairman, James Iaccoca, said Saturday that a number of Democrats have suggested "very strongly" that Lee Iaccoca, chairman of Chrysler Corp., be considered as Mr. Mondale's running mate, United Press International reported from Washington.

Mr. Johnson praised Mr. Iaccoca's "strength and leadership" but said Mr. Mondale had not made any decision on a running mate.

Symbol of America, Made in Portugal
The American eagle features prominently on a \$50 commemorative porcelain plate being hawked by the Republican National Committee as a "tasteful, elegant demonstration of support."

But the flip side says "Made in Portugal," and that has brought a protest from Representative James J. Florio, Democrat of New Jersey.

In a letter to President Ronald Reagan, Mr. Florio complained about the importation of plates designed and manufactured overseas when there were plenty of U.S. companies, including Lenox in New Jersey, available to make fine china. Furthermore, he added, "they certainly know more about American eagles."

Californians Defeat Initiative on Israel
Voters in Berkeley, California, have defeated an initiative calling for a reduction in U.S. aid to Israel. The measure would have required city officials to urge the federal government to reduce its aid by the amount equal to the Israeli investment on settlements in the occupied territories. It was defeated, 21,279-12,107.

Argentina Sends Arms To Honduras

Aid to Anti-Sandinistas
Fulfills Earlier Contracts

By Jackson Diehl
Washington Post Service

BUENOS AIRES — Argentina's new center-left democratic government has shipped \$2.5 million in arms meant for Nicaragua's anti-Sandinista rebels to Honduras this year, according to military and government sources.

The shipment to Honduras, which occurred in late February, included rifles, munitions and spare parts.

The government of President Raúl Alfonsín, which took office in December, also authorized the fulfillment of a \$9-million contract for sales of rifles and 105mm recoilless cannon to Guatemala's military government, the sources said.

The arms deliveries took place despite a private message sent in January by Mr. Alfonsín to the Reagan administration saying that his government would end Argentina's involvement in anti-leftist military activities in Central America and instead support Latin American nations seeking a negotiated political settlement there.

Word of the arms shipments comes as the Reagan administration is battling congressional reluctance to continue funding the anti-Sandinista effort. The administration has reportedly been seeking new sources of indirect aid for the rebels.

Government sources in Buenos Aires said there had been no coordination with the United States before the shipments and no direct intention of supporting U.S. policy.

They said that the arms shipments were made only to fulfill contracts made with Central American governments under the previous military government and that Mr. Alfonsín decided that shipping the arms was preferable to breaking partially fulfilled contracts.

The government believes that it must meet its legal commitments," said an official, stressing that Argentina intended to maintain its role in Central America.

Mr. Alfonsín replaced a military dictatorship that reportedly was deeply involved in military sales and aid to the governments of El Salvador and Guatemala and the Honduras-based guerrillas who are fighting the Sandinista government in Nicaragua.

Until mid-1982, when the Falkland Islands war prompted a withdrawal of official personnel, the Argentine military played a major role in training the Nicaraguan rebels, according to accounts here.

In the past two years, government sources said, the military agreed to sell at least \$10 million in arms to Honduras meant for the rebels, as well as \$9 million for Guatemala and other sales to El Salvador. Most of the shipments on those contracts were made before the military left power, officials said.

In addition, the military authorized the sale of a number of Argentine-built TAM tanks to Panama. Sources said, however, that the new administration has not gone ahead with the sale, in part because of indications that some of the tanks might be delivered to the rebels through Panama.

Despite these Central American arms shipments, officials in Argentina said Mr. Alfonsín's government intends to establish an arms sales policy markedly different from that of the previous military administration and from that of Brazil, a major arms exporter.

Dow Jones & Co. Pays \$800,000 In Libel Action
New York Times Service

NEW YORK — Dow Jones & Co., publishers of The Wall Street Journal, the largest U.S. daily newspaper, will pay \$800,000 to settle a \$5-million libel suit brought by two former federal prosecutors who said they were defamed by Journal articles in 1979.

The payment, covered by the newspaper's libel insurance, is the largest reported settlement in a U.S. libel suit that did not go to trial. It is also the first known departure from The Journal's policy of contesting all libel actions through the trial process.

As part of the agreement filed June 7, the company acknowledged that it and the reporter, Jim Drinkhall, could not prove a major allegation reported in the articles: that the prosecutors, William K. Kramer and John M. Dowd, had harassed a prisoner connected with organized crime to force him to cooperate with an investigation they were conducting against a Las Vegas casino operator.

Judge Assails U.S. On School Accord
Los Angeles Times Service

CHICAGO — In a ruling marked by harsh criticism of the Reagan administration, a U.S. judge has said that the U.S. government reneged on a contract to help pay for school desegregation in Chicago and owes the school system almost \$104 million.

U.S. District Judge Milton I. Shadur said that the "United States has broken its word" by refusing to provide financial aid after Chicago agreed to voluntarily end decades of racial segregation in a 1980 consent decree with the Justice Department.



STRANDED — Heather McLeroy and Andrea Richardson cling to a traffic sign in Overland Park, Kansas, as flash flood waters swirled around them. They were stranded on the median, surrounded by water five feet deep, for almost eight hours Saturday before being rescued by an armored tank. Thunderstorms drenched the Midwest United States. Many places got up to three inches of rain and hailstones the size of golf balls.

Senate Votes to Delete Funds for Honduran Bases

By Wayne Biddle
New York Times Service

WASHINGTON — The Senate has voted to delete funds for construction of two advance military bases in Honduras that had originally been sought by President Ronald Reagan.

The vote Friday was taken on an amendment offered on behalf of the administration to cut \$4.4 million from the defense authorization bill for the 1985 fiscal year. Senator Jeff Bingaman, a New Mexico Democrat, had been expected to offer the amendment this week, but Senator John Tower, a Texas Republican, brought it to the Senate floor early Friday morning.

Mr. Tower said the administration had decided to re-assess the need for the funds. Recent large-scale training exercises involving

U.S. and Honduran forces and the Reagan administration's efforts to build military facilities in Honduras have fueled debate about whether the president was seeking a temporary or permanent U.S. presence there.

An aide to Mr. Tower, who is chairman of the Senate Armed Services Committee, said Mr. Tower had consulted with the White House and determined that "there was no need to fall on our sword for this money." He said Mr. Tower had recently asked Mr. Bingaman not to bring up the amendment until next week, but decided Friday morning to offer it himself.

"It is clear the administration did not want a debate on the question of military strategy and U.S. policy in Central America," said Senator James R. Sasser, Democrat

of Tennessee, who opposed the bases.

The funds would have paid for a \$2.9-million army "fire-stock point" at San Lorenzo, Honduras, and a \$1.5-million air force "forward munitions storage area" at Palmerola. A Senate source said both facilities were intended for weapons and equipment to be used exclusively by U.S. military forces.

End of Exercises
Richard J. Melish of The New York Times reported from Tegucigalpa, Honduras:

The Granadero I exercises involving American, Honduran and Salvadoran forces formally ended Friday, and U.S. officials said the U.S. military presence will be lowered to fewer than 700 people from the current 1,700.

General John C. Scheidt Jr.

thanked the Hondurans for "hosting us and our Salvadoran friends." He told the Salvadorans that "you have an armed force of which you can be proud."

Colonel Adolfo Blandon, El Salvador's military chief of staff, said the exercises demonstrated "what the countries of the free world, united, are capable of."

He also said, "The people, the governments and principally the armed forces of Central America must know who is the true enemy, the common enemy of all our countries," which he said was the Marxist movement in the region.

Although U.S. officials said they expected no new large-scale military exercises until after the November election, they said unannounced rapid-deployment exercises, such as parachute drops, were likely to continue.

Budget Cuts Hardly Affect U.S. Projects

(Continued from Page 1)

that in domestic areas, such as Missouri and Washington, there has been a redistribution of funds away from the larger cities to smaller communities and suburbs where most of the voters live.

Growing authority within state government has been accompanied by a growing independence from the federal government. In New Jersey, for example, Richard W. Roper, one of the authors, wrote, "The landscape after four years of the Reagan program has changed not so much because of the program but because of political and economic developments in the state that, arguably, are largely unrelated to it."

One reason, he said, was that Governor Thomas H. Kean, a Republican, has undertaken social, economic and environmental initiatives that go far beyond what Mr. Reagan has said he wants to do on the national level.

Richard P. Nathan, director of the project, said field research had been conducted "to determine where federal budget cuts and policy changes hit the ground."

When Mr. Reagan proposed giving authority to the states early in his term, there were charges that many of the federal programs would be eliminated in the process. Governor William J. Janklow of South Dakota, for one, said that combining 54 programs in education, health and social welfare at reduced financing under nine block grants for states to run was a fraud that could only result in failure.

What appears to have happened, according to the Princeton study and other evidence, is that the various interests that helped obtain the programs in Washington shifted their lobbying to the state level and have been more effective than was anticipated.

In the 1982 fiscal year, federal funds for programs under the Cape Cod Chamber of Commerce, Michael Pruci, agreed. "The outlook is extremely good," he said.

New York City is expecting about 5 million visitors, more than last year, according to Charles Gillett, president of the city's Convention and Visitor's Bureau.

"We're admitting it's going to cost you more, but it'll be worth it," Mr. Gillett said.

The number of new passports issued in the United States this year is expected to be a record 4.7 million, a 12-percent rise over last year's total, which in turn was up 16 percent over 1982, according to the State Department.

About 107 million Americans, about the same as last year, are expected to take at least one round trip of 200 miles (324 kilometers) or more this June, July and August, according to the U.S. Travel Data Center in Washington.

Air Official Calls Atlantic Routes Safest

UNITED NATIONS, New York — North Atlantic air routes are the safest in the world and past navigational errors do not justify any changes in systems, the head of the International Civil Aviation Organization said.

"I have no reason to reassess the safety situation in the North Atlantic, and I continue to believe that the North Atlantic routes are not among the safest air routes in the world, but the safest," Assad Kotaitie, the ICAO council president, said Saturday.

Mr. Kotaitie was interviewed for UN television following a report of a sharp increase in navigational errors, posing a risk that airlines might collide over the Atlantic when they were beyond the reach of ground controllers' radar.

Mr. Kotaitie said military experts believe the Russians simply bought a copy of space shuttle blueprints, then improved on the designs, boosting the vehicle's lifting power.

"The space shuttle was totally unclassified. Anyone could buy a set of plans. However, no one has been able to find the request," he said.

Lieutenant Colonel Krebs, now research director for High Frontier, a space education and lobbying group in Washington, said his remarks were based on recently declassified information about Soviet space capabilities.

He said the Soviet Union is far ahead of the United States in development of space-based weapons capable of destroying satellites and ballistic missiles. They are already testing two land-based laser beam weapons that can destroy satellites in low orbits.

The conference, sponsored by the National Center for Policy Analysis in Dallas, included a debate on President Ronald Reagan's "Star Wars" initiative, a \$50-billion program to develop high-technology space defenses.

John Pike, associate director for space activities for the Federation of American Scientists, argued that high-technology defense systems using orbiting "killer satellites" are too vulnerable to provide a reliable defense.

But former U.S. Army General Daniel Graham, president of High Frontier, said, "We're not out to find a nuclear way to fight a war in space. We can prevent nuclear war by using space for defensive purposes."

He estimated that a "Star Wars" defense could destroy 95 percent of

Russians Build a Copy Of U.S. Space Shuttle

The Associated Press

DALLAS — The Soviet Union has developed its own space shuttle the easy way — by copying the American orbiter, a former Defense Intelligence Agency official says.

"We've seen the [Soviet] orbiter and it's identical to ours," said retired Lieutenant Colonel Thomas H. Krebs, former chief of the agency's space systems branch. In a speech at a conference sponsored by a conservative think-tank Friday, he said that the Soviet Union will launch its space shuttle within a year or two.

Lieutenant Colonel Krebs said military experts believe the Russians simply bought a copy of space shuttle blueprints, then improved on the designs, boosting the vehicle's lifting power.

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AMERICAN TOPICS

That's Why They Call It a Uniform

Efforts being made in Congress to allow members of the armed forces to wear "unobtrusive religious headgear" such as Jewish yarmulkes, or skullcaps, are being criticized by the Pentagon. Top-ranking officers argue that exceptions for one group will lead to demands by other religious groups. The military would also have to decide which headgear is obtrusive and which is not, opponents contend.

An amendment allowing military personnel to wear "unobtrusive" headgear on a one-year trial basis, was passed by the House of Representatives as part of the 1985 defense authorization bill. Since then, Senator Orrin G. Hatch, Republican of Utah, has solicited support for an identical amendment when the Senate takes up the defense bill.

The amendment was introduced after a federal appeals court decision last month that upset many Jewish leaders. The court, considering the case of an air force captain who was disciplined for wearing a yarmulke, ruled that the armed forces have the right to determine dress for those on active duty.

Fruits of Labor: A Third for Taxes

The Tax Foundation figures that the average American works an hour and 43 minutes of the typical eight-hour day to pay federal taxes and 57 more minutes to pay local and state taxes.

Earning money for taxes takes the biggest chunk of the average worker's day, the private nonprofit organization said. The costs of housing and running a home come next at an hour and 34 minutes.

The worker also spends an hour and 4 minutes a day earning food, 42 minutes on medical care, 21 minutes on recreation, and 20 minutes on education. Everything else, including private education, religious activities and foreign travel, takes 43 minutes of the worker's day.

Saving the Children From 'Dial-a-Porn'

The Federal Communications Commission hopes it has come up with a solution to the problem of children calling up sexually explicit "dial-a-porn" phone services. A new agency rule restricts the services' hours to between 9 P.M. and 8 A.M., on the theory that parents are likely to be home then to supervise their youngsters' phone calls.

Alternately, dial-a-porn services can operate during daytime hours on the condition that they take only credit cards in payment for the calls.

Agency officials acknowledge that their solution is less than perfect, but it is the best they can come up with. The constitution's guarantees of free speech seem to prevent any outright ban on the phone messages; on the other hand, a 1983 law makes it a crime to use telephone facilities to transmit obscene or indecent messages to minors for commercial purposes.

Insulting the IRS Becomes Expensive

Taxpayers who are fined for writing insults or protests on their returns may be victims of overzealous interpretations of a new law, according to Internal Revenue Service officials. Anne McNally of Lakewood, Ohio, for example, paid her taxes in full but wrote on the return a

protest against military spending and was fined \$500.

More than 5,000 taxpayers are being fined for exercising the constitutional right of free speech on their tax returns.

Two years ago, Congress gave the IRS authority to prosecute people who file frivolous tax returns, like those which claim hundreds of dependents, claim a "frivolous position" as the basis for withholding information, declare "clearly unlawful deductions," or deface the return so it cannot be read.

Larry Batdorf, an IRS spokesman, said prosecutors may have made a mistake. "Gratuitous insults would not be covered by the guidelines," he said.

Eyes of Texas On Education

Governor Mark White of Texas is seeking the biggest tax increase in Texas history for improvements in education in the state. He has called a special 30-day session of the legislature to consider a proposed \$4.85-billion tax increase.

With its oil and gas revenues receding, Texas wants to lure



Governor Mark White

more high-technology industry, but poor public schools are an obstacle. The state ranks 42d in the percentage of students who finish high school, 38th in spending per student and 30th in average teaching salary, although it comes in 17th in per capita income.

Symbol of America, Made in Portugal

The American eagle features prominently on a \$50 commemorative porcelain plate being hawked by the Republican National Committee as a "tasteful, elegant demonstration of support."

But the flip side says "Made in Portugal," and that has brought a protest from Representative James J. Florio, Democrat of New Jersey.

In a letter to President Ronald Reagan, Mr. Florio complained about the importation of plates designed and manufactured overseas when there were plenty of U.S. companies, including Lenox in New Jersey, available to make fine china. Furthermore, he added, "they certainly know more about American eagles."

Californians Defeat Initiative on Israel

Voters in Berkeley, California, have defeated an initiative calling for a reduction in U.S. aid to Israel. The measure would have required city officials to urge the federal government to reduce its aid by the amount equal to the Israeli investment on settlements in the occupied territories. It was defeated, 21,279-12,107.

WORLDWIDE ENTERTAINMENT

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Italy Said to Conclude Bulgaria Agents, Turks Planned Pope Shooting

The Associated Press

NEW YORK — Mehmet Ali Agca's attempt on the life of Pope John Paul II was arranged by members of Turkish criminal and neo-Nazi groups and by Bulgarian agents who hoped that the pope's death would fragment the independent labor movement in Poland, The New York Times reported Sunday.

According to The Times, a secret 78-page report by the Italian state prosecutor, Antonio Albano, which seeks the indictments of three Bulgarians and six Turks, concluded that the Bulgarian secret service recruited Mr. Agca to shoot the pontiff.

Mr. Agca was promised more than \$400,000 and arrangements were made for him to escape afterward, but he was captured and never received the money. Apparently feeling abandoned, Mr. Agca in 1982 began to cooperate with Italian authorities, said the report, quoted in an article by Claire Sterling, an American author and journalist.

NBC News also obtained a copy of the report and in a May 25 broadcast said that the attempt on the pope's life was arranged by Bulgarians who feared the spread of the Solidarity labor movement to other East European nations. Mrs.

Sterling's article included extensive details from Mr. Albano's report, which was based on 25,000 pages of documents gathered during an Italian judge's investigation.

Bulgaria has denied any involvement in the shooting, contending that such reports are part of a Western plot to discredit it.

Mrs. Sterling is the author of a book, "The Time of Assassins," published in January, which summed up her theory that Bulgaria, and ultimately the Soviet Union, were behind the May 13, 1981, shooting in Saint Peter's Square.

Mr. Albano's report noted the "social convulsions" caused by the rise of Solidarity and said Poland's "ideological collapse" was due in large part to the nation's deep religious faith, sustained by the elevation of the first Polish pope.

The prosecutor did not address the question of Soviet involvement. His report called Mr. Agca "the material executor of a broader conspiracy" and said, "In some secret place, where every secret is wrapped in another secret, some political figure of great power" took note of the rise of Solidarity and "mindful of the needs of the Eastern bloc, decided it was necessary to kill the pope."

As outlined by Mrs. Sterling, the report traced Mr. Agca's history from his association with members of a Turkish criminal ring and the Gray Wolves, a nationalist neo-Nazi group, to a July 1980 meeting with a Bulgarian secret service agent. The meeting was set up by Bekir Celenk, a Turkish crime leader, and attended by Oral Celik, a leader of the Gray Wolves, the article said.

The Bulgarian secret service agreed to pay roughly \$125 million to Mr. Agca and members of the Gray Wolves to organize and execute the plan, the article said. The report also followed Mr. Agca's trail through Europe before the assassination attempt, a journey apparently designed to cover his tracks, and detailed his meetings with various Bulgarian officials in Rome.

Mr. Agca is serving a life term in an Italian jail for the shooting. Mr. Albano's report is to remain secret until the judge issues his own report and rules on whether there will be a trial of the Bulgarians and Turks whose indictments are sought.

Twin Stations in Europe Expanding U.S. Raises Funds of Radio Free Europe, Radio Liberty

By James M. Markham

New York Times Service

MUNICH — After years of retrenchment and self-effacement following the disclosure in the early 1970s of Central Intelligence Agency financing, Radio Free Europe and Radio Liberty are being expanded by the Reagan administration.

The once barracks-like headquarters of the twin radio stations here is being refurbished, after a \$21.3-million supplemental appropriation by Congress.

Three correspondents have been sent to Afghanistan to interview Soviet defectors, and a full-time office will soon be opened in Pakistan to monitor the Afghan guerrilla war against the Soviet-installed government of President Babrak Karmal. A new correspondent will be based in Hong Kong to keep tabs on Soviet moves in the Pacific.

There is also a buildup in the sections dealing with the languages spoken by the Islamic

peoples on the southern rim of the Soviet empire.

The changes appear to have bolstered morale among many of the stations' 1,674 polyglot staffers, who broadcast in 21 languages to the Soviet Union and its East European allies. But for others, the advent of a conservative, ideologically activist management closely tied to the Reagan administration has caused concern that the stations, set up in 1950s, are losing their political autonomy and professionalism.

Two years ago, a law pushed through by Senator Claiborne Pell, Democrat of Rhode Island, making the radio stations responsible to the semiautonomous Board for International Broadcasting in Washington, in fact gave the administration a firmer hold.

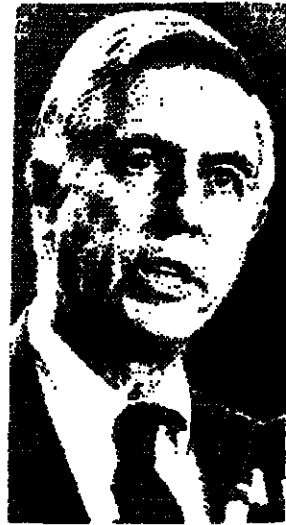
Frank Shakespeare, the chairman of the broadcasting board, also became chairman of the two radio stations, and James L. Buckley, the former New York

senator, was named president. George Bailey, an American, became the head of Radio Liberty, which broadcasts solely to the Soviet Union.

To lead Radio Free Europe, which beams its programs to Eastern Europe, the board selected George R. Urban, a longtime British radio broadcaster of Hungarian extraction.

Mr. Bailey removed the U.S. supervisors who had traditionally watched over the copy broadcast to the Soviet Union. "It has to be an Uzbek who has to decide what Uzbeks want to hear and not a sunburned American from Iowa," he said.

The newly promoted Soviet-born desk editors liked the Bailey changes. But, as few of the editors have wide journalistic experience, their promotion was attacked. Some of the sharpest criticism of Radio Liberty comes from East European émigrés at Radio Free Europe, who privately air views that "backward Russians" can be



James L. Buckley

heard in Warsaw, Prague or Budapest.

Mr. Buckley said the innovations had "increased the self-confidence" of some services.

"In our broadcasts, we let the Soviet Union speak for itself," he continued. "You're dealing with audiences that are superstitious to the propaganda line and to ideology."

U.S. Scientists Cancel Meeting With Russians

Group Assails Treatment of Sakharov; Official Responds With 'Regrets' Note

By Christine Russell

Washington Post Service

WASHINGTON — The National Academy of Sciences, the most prominent honorary organization of scientists and engineers in the United States, has canceled talks with its Russian counterpart in a show of concern over the treatment of Andrei D. Sakharov, the dissident scientist.

The president of the academy, Frank Press, who was to have led a delegation of U.S. scientists to Moscow last week, said the group's 17-member governing council decided to postpone the meetings indefinitely, "pending positive resolution of the Sakharov situation."

"It's an important symbolic thing we had to do," Mr. Press said. "Hopefully, it will have an impact but one doesn't know. This is the final act of a long series of communications where we told them how

concerned we were and how important a world figure he is to us."

Mr. Sakharov, a winner of the Nobel Peace Prize and an associate of the 1,400-member U.S. Academy, has reportedly been on a hunger strike since May 2 in an effort to win permission for his wife, Yelena G. Bonner, to go abroad for medical treatment. The status of his health remains uncertain. His wife suffers from eye and heart disorders.

Mr. Press sent a telegram Friday to the president of the Soviet Academy of Sciences, A.P. Aleksandrov, notifying him of the decision.

A National Academy spokesman said Mr. Press received a five-word response from Mr. Aleksandrov, saying: "I received your telegram. Regrets."

The Moscow talks were designed to discuss the renewal of meetings between the two academies. A memorandum on joint sessions had been in effect since February 1980, just after the intervention in Afghanistan, and a formal exchange agreement between the groups expired in 1982.

The U.S. academy's action does not stop scientific exchanges. A State Department official said official U.S. exchanges of scientists with the Russians were continuing under agreements covering access from agriculture to artificial hearts.

William Carey, executive director of the American Association for the Advancement of Science, said his group had also protested about the Sakharov situation but had received no official reaction from the Russians.

He said he felt the action by the U.S. academy could have an impact, since "the loss of the contact, or at least its suspension, is a matter of real grief to the Soviet Academy."

"It may not extricate Sakharov but it is likely to strengthen the resolve of his brothers in the academy to stand by him to the limit of their ability," he said.

300 Swiss Protest Papal Visit

The Associated Press

BERN — About 300 people, objecting to Vatican policies on women, homosexuals and the Third World, demonstrated Saturday in the Swiss capital against the six-day visit to Switzerland by Pope John Paul II that begins Tuesday.

Beijing Bishop Rebukes Vatican

Reuters

BEIJING — The Vatican is trying to undermine the Catholic Church in China, the bishop of Beijing said in an interview published Sunday.

"In recent years," Bishop Michael Fu Tieshan said, "the Vatican has assumed the posture of rapprochement with Chinese Catholic churches but at the same time it has tried to use every possible opportunity to carry out divisive and subversive activities, both overt and covert."

The Catholic Church in China severed ties with the Vatican in 1957 when the government requested religious bodies to end all relations with outside authorities. On a tour of Asia this year, Pope John Paul II said he wanted to improve ties with China's estimated three million Catholics.

U.S. Author Disputes Findings About Aquino

By Robert Welles

Los Angeles Times Service

LOS ANGELES — An American author who investigated the assassination of Benigno S. Aquino Jr. has told an official Philippine fact-finding board that the government account of the slaying is at odds with recordings made at the scene of the killing.

Steve E. Pinauskis of San Francisco, a critic of the regime of President Ferdinand E. Marcos, said recordings made by journalists Aug. 21 at Manila International Airport showed that three seconds elapsed between the shot, that presumably killed the opposition leader and the first of the flurry of shots that killed Rolando Galman, the alleged assassin.

Mr. Pinauskis, testifying Friday before the five-member board in Los Angeles, said the government version of the crime indicated that only one second elapsed between the first and second shots.

The board, headed by retired Justice Corazon Agrava, held five days of hearings in the United

States on Mr. Aquino's assassination.

The autopsy conducted on Mr. Galman's body showed he was shot three times from the rear — twice in the back and once in the back of his head. But Mr. Pinauskis contended that by the government's version, Mr. Galman would have been flat on the ground facing up when Sergeant Rolando de Guzman first shot him.

"It's impossible," Mr. Pinauskis said. "If this was Guzman, he could not have fired at Galman since he was already on his back on the ground in one second."

Critics say that Mr. Galman was killed before the assassination and that his body was dumped on the tarmac and shot repeatedly to make it appear as if he had been the gunman. They say Mr. Aquino was shot by a government hit man.

Mr. Aquino was killed by a bullet that struck him behind the left ear as he was being led by a military escort toward a van. He had just returned from self-exile in the United States and had been warned of plots to kill him.

Shopping Lines Putting Strain on Soviet Marriages

Reuters

MOSCOW — Russians are spending more time standing in line for basic goods than 10 years ago and the strain of shopping is a major cause of marital conflict, the Soviet daily Pravda reported.

As a whole, Russians now spend a total of 37 billion hours a year standing in line compared with 30 billion in the mid-1970s, the Communist Party newspaper said Saturday.

The average Soviet adult spends about 190 hours a year in lines. It quoted one reader as saying that many family dramas could be avoided "if only it were possible to buy all basic goods round the corner or go out and get a decent meal in a café."

The newspaper said the biggest single cause of marital stress was the attitude of Russian men, who generally still refused to share household chores and child rearing with their working wives.

Another source of strain was the lack of modern household equipment, which means most cleaning and cooking had to be done by hand.

Sri Lankans Are Split Over Deal With Israelis

Reuters

COLOMBO, Sri Lanka — The Sri Lankan government has outraged opposition parties and the island's Moslem minority by inviting the Israeli secret service to train its security forces.

Critics are especially upset because Sri Lanka severed diplomatic ties with Israel 14 years ago, calling on it to withdraw from occupied Arab territory. They fear this latest move may anger the nation's Arab allies.

The government headed by President Junius Jayewardene, which came to power in 1977, maintained the anti-Israeli policy and developed close relations with Arab countries.

On May 31, however, the Foreign Ministry announced that Mossad, Israel's secret service, would advise the Sri Lankan security forces on intelligence gathering and anti-guerrilla warfare.

Sources said some military units were being trained in commando operations by former British special forces. "This is a purely private arrangement and the British gov-

ernment has nothing to do with it," they said.

Separatist guerrillas are fighting to get their own state for the minority Tamils, who make up 2.5 million of the island's 15 million people. The majority Sinhalese number about 11 million and there are about 1 million Moslems, most of them of Arab origin.

The killing of 13 Sinhalese soldiers in July by Tamil guerrillas caused ethnic violence that left nearly 400 people dead.

Government spokesmen have said that the guerrillas are trained in camps in southern India, 20 miles (35 kilometers) from Sri Lanka's northern coast. India has denied the charge but the dispute has strained relations between the two countries.

The attack on the latest government maneuver was led by Sirimavo Bandaranaike, the former prime minister who originally cut ties with Israel in 1970. She said involving the Mossad "may only lead to bringing the Arab-Israeli conflict and all its violence to our homeland."

LETTERS TO THE EDITOR

(Continued From Page 4)

On Saffire's Side

Regarding the opinion column "When a Knee-Jerk Interventionist's Knee Won't Jerk" (May 29):

William Saffire seems embarrassed at the "onset of inconsistency." In a mood of self-accusation he quotes Joseph Addison and, for self-exculpation, invokes Walt Whitman. But where is his Ralph Waldo Emerson when he is needed? Mr. Emerson has always been on the side that Mr. Saffire takes. In his essay "Self-Reliance," he wrote: "A foolish consistency is the hobgoblin of little minds, adored by little statesmen and philosophers and divines. With consistency a great soul has nothing to do."

SCOTT CHARLES

Most Americans I've spoken to embrace William Saffire's "interventionism" as a sound, constructive policy that would earn respect for the United States.

Interventionism: "Fight the good fight and fight it to win; we should scrupulously avoid fighting any unnecessary fights at all." What genius. Saffire for secretary of state!

RAY BAILEY

Munich.

Pricing the Treatise

In his art market feature "Prices Swing Wildly on Islamic Works" (April 21) commenting on the sale at Sotheby's of an Arab treatise on falconry, Souren Melikian finds the price £32,355 (about \$45,000) "astounding" in view of the date at which the manuscript was copied.

As purchaser of this remarkable book, we feel entitled to set the record straight. Mr. Melikian correctly notes that the manuscript was misdated as "dated 1223." Sotheby's notified prospective bidders of a correction, posted a notice to this effect and made a salesroom announcement that it was copied from a text dated 1223.

Mr. Melikian wrote, "The paper rules out any date earlier than the 16th century, the 17th or 18th seeming more likely. That makes the price astonishing."

Sotheby's highly qualified expert, Nabil Saidi, provided Mr. Melikian with a written report prepared at their request by Dr. Julius Grant, an analytical chemist and

authority on inks and paper, and one of the experts whose examination of the "Hitler diaries" led to the conclusion that they were forgeries. Regarding his tests, Dr. Grant states, "The results obtained are consistent with those likely to be found in a paper of the early 15th century," adding, "my work did not exclude a date later than A.D. 1223, and I have difficulty in stating how much later. It seems likely that papers of the 17th century and later can be excluded."

Also, Mr. Melikian cannot have overlooked a title page annotation obviously added after the text was written, giving the date 933 A.H. (1526 A.D.). He ignores the evidence that this manuscript was copied after 1223 but before 1526, suggesting instead that it dates from the 17th century or later.

Rather than implying that Sotheby's was misleading and that the buyer overpaid, it might have been more interesting had Mr. Melikian noted the rarity of this text, which relates how the Byzantine emperor sent a book on hawking to the Abbasid Caliph, al-Mahdi (who ruled from 775 to 785 A.D.), who in turn commissioned his court falconer, Adham ibn al-Bahli, to compile a comprehensive study based on Byzantine Turkish and Persian sources. A copy of this work was translated into Latin by order of Frederick II. It deals exhaustively with such subjects as care of young birds, feeding, treatment of illness and damaged feathers, and the training and use of hunting birds. No other copy in Arabic is known to have survived; once a full translation is completed a fascinating comparison with the Latin text will be possible.

OLIVER HOARE and DAVID SZABERGER, London.

Mr. Melikian replies: The fact that a huge or a low price is paid does not establish by itself that it is the right price — or else no one would talk of bargains or over-payments. Mr. Saidi, with whom I discussed the manuscript, expressed delight and surprise at the price.

The Arabic colophon states that it was "copied from a manuscript dated 1223. It is not of that period. The paper is unusual for early manuscripts, of which I have handled many as a historian. The report, cautiously worded, was inconclusive. It

was drawn by specialists whose expertise lies essentially in Western manuscripts — such as the "Hitler diaries."

U.S.-German Relations

The article by John Vinocur ("Intellectual Europe Changes Sides on U.S. as Hero or Ogre," May 16) on the relationship between Western Europe and the United States insults your readers' intelligence.

To claim that the Greens are anti-West or anti-American is wrong. The U.S. civil rights movement has been one of our major inspirations. At a rally in Bonn last September against the stationing of cruise and Pershing-2 missiles, the speakers receiving the warmest applause were a U.S. congressman and two American winners of the Nobel Prize.

J. von UEXKÜLL, Green candidate for the European Parliament, London.

The changes in German attitudes toward the United States deserve honest, unselfish inspection. As an American living for over 25 years in Germany, I too can testify that the esteem the United States once enjoyed has decreased in the last three or four years. The aspects of American culture and politics that trouble German and other European intellectuals also trouble many American intellectuals. Are we anti-American, too? Mr. Vinocur fails to address the issues.

SUE DUELL, Munich.

An Affront to Jefferson?

James Reston's opinion column ("How Does Nice Reagan Last? With Simple Answers," May 21) was a new low. First comes the superficial idea that the president will win again because he is a nice guy. Can Mr. Reston really be so arrogant and condescending as to believe that the American people vote on that basis rather than in response to four years of administration activity?

Then Mr. Reston offers the idea that the Founding Fathers established the separation of powers because the majority of the people was not always to be trusted. Thomas Jefferson would turn in his grave at this reversal of his ideas.

BILL WAGNER, Libreville, Gabon.

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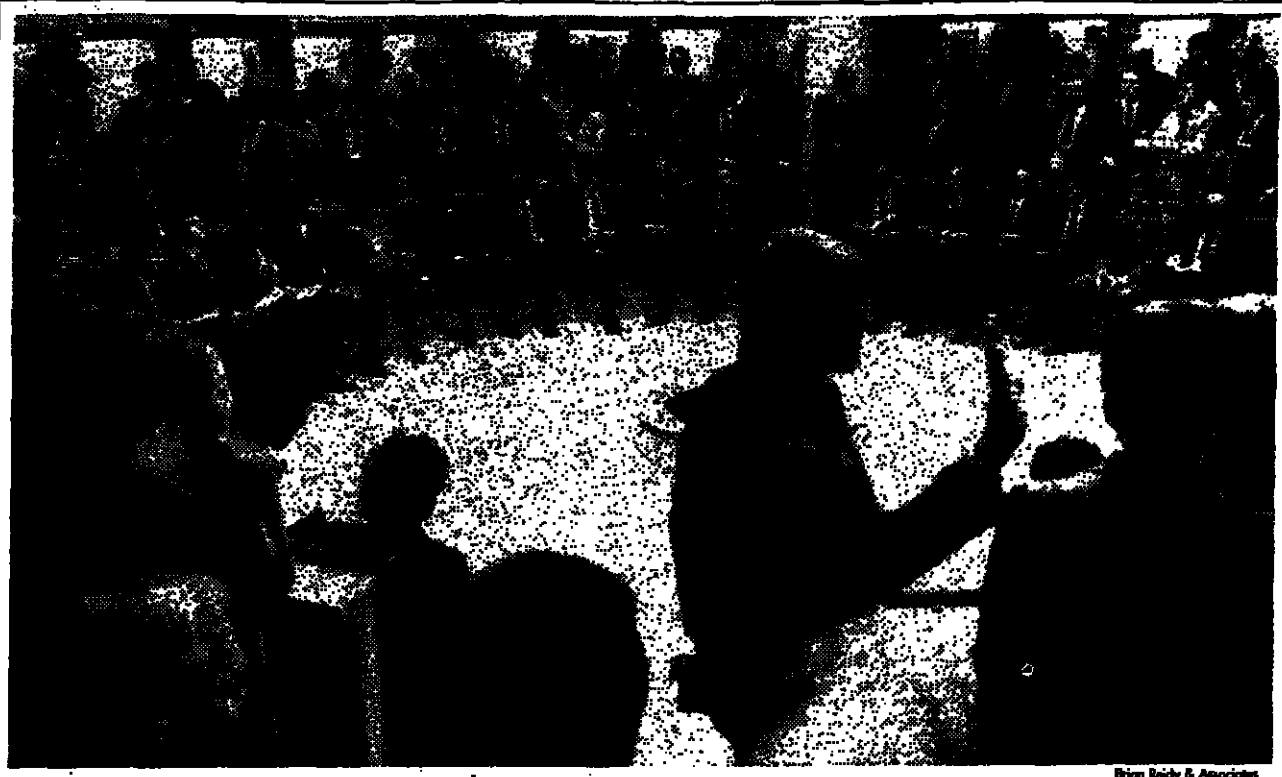
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BANKING AND FINANCE IN BRITAIN

A SPECIAL REPORT

MONDAY, JUNE 11, 1984

Page 7



The London Metal Exchange trades in copper, tin, lead, zinc, silver, aluminum and nickel.

London's Financial Standing At Stake in City's Revolution

By Bob Hagerty

LONDON — Over a pint of bitter in the members' lounge at the stock exchange, Tony Jenkins is brooding.

Mr. Jenkins is the senior partner of S. Jenkins & Son — he's the son — and has worked in the City since 1944. He sees little sense in the rush to bring London's securities industry more into line with the practices of New York and Tokyo.

"I'm wondering," he tells a visitor, "whether New York has ever tried our system."

Such sentiment finds wide sympathy among London stockbrokers and bankers these days. But the City has embarked on a radical restructuring, and few of its leaders believe the upheaval can be stopped.

"Revolution," says Norman Tebbit, Britain's trade and industry secretary and a firm supporter of the changes, "seems too strong a word."

It did seem too strong 11 months ago. That was when Mr. Tebbit's predecessor, Cecil Parkinson, reached an out-of-court settlement with the stock exchange on government charges that certain exchange practices unfairly restricted competition.

The heart of the agreement was a promise by the exchange to abolish fixed commissions on securities trading — in other words, to introduce price competition for brokers' services — by the end of 1986, more than 11 years after Wall Street made a similar move.

That concession has prompted a feverish round of consolidation in the City as banks and securities firms seek new partners and more capital to cope with the expected jolt of competition. What was expected to be evolutionary has come at a breakneck pace. London "will be totally different in five years," says Barbara Thomas, a former commissioner of the U.S. Securities and Exchange Commission who

took a senior post at the London merchant bank Samuel Montagu & Co. last year. "Who the major players will be then is unknown."

Gordon Pepper, joint senior partner at the brokerage W. Greenwell & Co., says the City is "packing into a couple of years structural upheaval that took place in America over 20 years."

The restructuring — which Robin Leigh-Pemberton, governor of the Bank of England, has called the most important issue of his five-year term — extends far beyond the stock exchange. It is opening up opportunities, and perhaps pitfalls, for banks, insurers and other financial-services companies long barred from securities trading.

At stake is London's future as a prime international financial center, a distinction that produces about \$4.5 billion a year in export income.

Merrill Lynch & Co. estimates that the London Stock Exchange accounts for 10 percent of the value of shares worldwide, trailing New York, with 50 percent, and Tokyo,

with 25 percent. But over the last decade London institutions have lost ground in securities trading, notably in international bonds. Though London is the main center of Eurobond trading, only one British firm, the merchant bank S.G. Warburg & Co., is among the top 10 lead managers of Eurobond issues.

Without big changes, "the risk is that market position will erode and creativity and dexterity will not grow," says John Howland Jackson, a director of the merchant bank Kleinwort, Benson Ltd. Putting it more baldly, Robert Gullett, head of Shearson/American Express Inc.'s London unit, says: "If the U.K. institutions don't react to the challenge of deregulation, they will be blown away by the Americans and the Japanese and the Germans and whoever else has got the money and the will."

Along with many other foreign observers, Mr. Gullett thinks London's securities industry is headed in the right direction. But the revolution is unlikely to be bloodless, and the weaker brokerages are al-

ready feeling intense pressure to find merger partners or face extinction.

The system that is being overhauled evolved over centuries. It has crowded the close, winding lanes of the City with hundreds of small, specialist firms. Many of them are highly profitable at home; abroad, few are more than minnows. "Everybody is in their little niche and quite comfortable, thank you," observes a senior U.S. investment banker in London.

The dozen or so known as jobbers stand in the stock exchange as "market makers," ready to quote a buying and selling price for each security they handle. About 200 brokerages, in turn, act as intermediaries between jobber and investor. Brokerages are barred from buying or selling for their own accounts.

The merchant banks underwrite new issues of securities. They are not allowed, however, to deal in securities.

The discount houses trade short- (Continued on Page 12)

Competition Alters Eurobond Trade

By William Ellington

LONDON — The City's Eurobond business has thrived over the years but trading firms are having to work much harder these days to ensure that their operations are profitable.

From the outset, London has been the major center for trading Eurobonds. More than a quarter of the member firms of the Association of International Bond Dealers are located in London. Owing to widespread representation of foreign banks, most Eurodollar bond offerings are managed from London. And while the Eurobond business has been cyclical, profits in good years have been high enough to attract an increasing number of firms.

Competition is posing problems, quite apart from the drop in business caused by rising interest rates. The response of some firms has been to diversify their business mix. Others have become more specialized. Some have invested heavily in technology to improve profits; for instance, Societe Generale Strass Turballe Ltd., a highly successful Eurobond trading house, increased its expenditure on computers and software more than 40 percent in the fiscal year that ended last August. In that year, its trading turnover in Eurobonds rose about 59 percent, to \$15 billion.

"Bought deals" are one form of transaction where competition has become cutthroat: Firms make competing bids to a borrower, undertaking to buy a Eurodollar bond issue at fixed terms before it is known whether the issue can be placed with investors. Too often, the adage that it is always possible to do business at the wrong price has proved correct. Some firms have taken losses by bidding too low and finding that they have to sell the bonds at a loss. On other occasions, market conditions have changed adversely before a syndicate can be formed and the bonds placed.

However, the bought deal has enabled London underwriters to capture most of the U.S. corporate bond business. In recent years, U.S. underwriters have been able to resist competition through what are known as shelf registrations. These work in a similar fashion to bought deals.

Though opinions on the subject differ, it seems probable that London's bond business will get a boost if the U.S. withholding tax on interest and dividend payments to non-residents is removed. If so, London firms will be able to sell U.S. bonds and other securities through the same distribution networks with which they sell Eurobonds.

An adjunct to the bought deal has been the development of an

organized "gray market" for new issues. When Eurobond offerings are announced, trading starts right away on a when-issued basis. Thus, those who cannot place bonds immediately can sell their underwriting commitments to other firms that have clients for the bonds. While this practice seems sensible in theory, it has led in practice to a whittling away of the commission structure.

It is now normal for issues to start trading at a discount equal to the selling group concession, which is usually 1.25 percent. However, bonds frequently trade at discounts equal to the gross commission, wiping out all underwriting profits. Sometimes underwriters sell a competitor's issue short in the gray market to offset a loss on their own underwriting commitments. This tends to push the prices of all offerings down.

As the volume of Eurobond trading has increased, the margins between the bid and offer have been trimmed, in some cases to the point where it has been difficult to make profits. This has led to an open quarrel between dealers, who act as principals, and brokers, who act as agents for trades between dealers. The nub of the argument is whether brokers have been diverting business from dealers by supplying quotes to firms that are not really dealers.

Not even the Association of International Bond Dealers has been able to define what a dealer is, so the argument is likely to continue. Meanwhile, price information has become more plentiful, partly as a result of screen services such as those provided by Reuters and Teletype. The upshot is that dealers are lucky to get an eighth of a point between their bids and offers, even though standard market practice is to quote half-point spreads.

Aside from competition undermining profits, London's Eurobond business also faces a challenge from British tax authorities. When Britain's exchange controls were lifted in 1979, British residents became free to buy Eurobonds, which pay interest free of withholding tax. But this possibility has been curtailed by the requirement that any paying agent in Britain must withhold taxes paid to residents. This also applies to payments to nonresidents unless certain affidavits are produced that require the identity of investors to be disclosed.

Under pending legislation, it is no longer clear whether interest on a Eurobond issue of a British company would be paid gross to non-residents under any circumstances if a nonresident has his portfolio managed from London. A danger (Continued on Page 10)



In the pit of the Financial Futures Exchange.

Fears of U.S. Dominance Are Receding

By Barbara Rosen

LONDON — When it first became clear that the "revolution" in the City of London would include raising or abolishing the ceiling on outside ownership of stock exchange member firms, there was talk of Americans gobbling up the London market.

Considering that Merrill Lynch, for example, has about 100 times as much capital as a large London broker has, the idea was not that farfetched. Some London market participants continue to express fears of an American-dominated market in which the U.S. parent companies would not place enough priority on London and could pull out if things got rough back home or if the exchange rate fell.

So far the fears have proved unfounded. To date, only three U.S. companies are officially committed to roles in the new London market. More are on their way, but they are moving slowly, waiting for the dust to settle. And for the most part, they do not appear set on a course of devouring London firms.

"The United States is not going to run away with this marketplace," said the chairman of one U.S. brokerage house, adding that "there's tons of money here" from other sources, including French and West German as well as British banks.

Several U.S. companies, including Merrill Lynch, Salomon Brothers International, Goldman Sachs International Corp. and Citicorp, are interested in becoming dealers in the market for British government, or gilt-edged, securities, provided the terms of the anticipated market reorganization turn out to be attractive enough.

The Bank of England is believed to be leaning toward instituting a gilt-trading system using primary dealers, similar to the U.S. system of trading Treasury bonds. Many observers also believe the central bank will allow primary dealers to be either brokers or market-makers, and to be completely owned by outside companies.

Opinions vary on just how loose a regulatory framework might be in place.

"I'm told it's not going to be as free a ride as everybody thought."

said a British stockbroker. And an American broker cautioned: "The Bank of England does not throw things wide open."

None of the U.S. brokerages is understood to be in the market for acquisitions just now. Instead, they appear ready to build up in-house expertise they would need in the British market, hiring individuals as needed.

The learning process could be expensive. Some British observers wonder whether the Americans can develop on their own the expertise to make a market in gilts.

The U.S. firms counter that they already have good foundations, with businesses in trading Eurodollars and Eurobonds. "Adding gilts to that is no great particular problem," said an American broker.

Several firms do, however, mention the possibility of having to acquire a distribution network intact.

Most of the U.S. companies do not appear to be doing any extensive headhunting. "We're not out on some hiring binge," said an ex-

ecutive at Goldman Sachs in London.

But Merrill Lynch is in the market for about 10 British stock analysts, to be hired after it finds a director of European research. The firm began shopping last year by approaching the analysts ranked highest in the annual survey by Continental Illinois.

Market sources also say Merrill Lynch seriously considered acquiring the British stockbrokerage house of Rowe & Pitman. Observers speculate that the idea was rejected because Merrill is being careful to avoid a rerun of its ill-fated investment in the Hong Kong securities firm Sun Hung Kai (Charter Consolidated Ltd., a British mining finance company, has since bought 29.9 percent of Rowe & Pitman, the maximum stake allowed under present rules, but without an option to increase the holding if the rules change.)

Among the U.S. links announced so far, the Los Angeles-based bank

holding company Security Pacific Corp. acquired 29.9 percent of the high-ranked British brokerage Hoare Govett Ltd. in June 1982. Security Pacific does not hold an option to increase its stake, and market sources are wondering about Hoare Govett's future moves.

Citicorp acquired a stake in Vickers de Costa Ltd. last November, with an option to increase the holding if the rules change. The main attraction here appears to have been Vickers' Far Eastern operations more than its relatively small London position.

"It's fair to say that Vickers is very widely known for its leading position in Far Eastern equity research and brokerage," said Frederick Perri, a director of Citicorp International Group Inc. As for other plans, he said: "I wouldn't think this would be the last thing that we would do in the sequence of

(Continued on Next Page)

Merchant Banks Are Seeking A Greater Role in Securities

By Lynne Curry

LONDON — With the impending deregulation of the London Stock Exchange, leading merchant banks are poised for a major transformation of their traditional role. They are preparing to increase their participation in securities dealing.

The deregulation, required by the end of 1986, involves the abolition of fixed commissions on securities transactions and probably the elimination of the distinction between brokers and jobbers. Brokers act as agents for their client and jobbers, or market makers, execute the broker's orders on the exchange.

The impact of these changes on merchant banks will be profound. Those that adapt to deregulation are likely to become international securities firms with roles increasingly similar to those of U.S. investment banks. The smaller mer-

chant banks without the resources to go international may become specialist "boutiques."

"What is happening is that merchant banks are becoming involved directly in the stock market and they have never been allowed to do that before," said Bill Mackworth-Young, chairman of Morgan Grenfell & Co. Ltd.

"I hope these changes will make London more attractive as a financial center," said Andrew Buxton, a general manager of Barclays Bank PLC. "There is no doubt we've been losing business to New York."

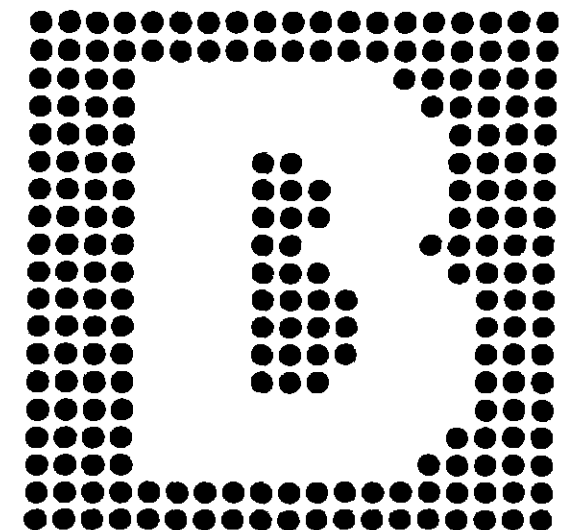
Traditionally, merchant banks have specialized in financing international trade, dealing in foreign exchange and offering financial advice on mergers and acquisitions. They have also acted as issuing houses for corporate clients by helping them raise funds on the stock market. They have been ma-

ior underwriters of stocks and bonds, but have not been involved in market making and distribution of securities.

"If we want to compete internationally with investment banks on the Continent, where they are able to act as underwriter, market maker and distributor of securities, we need to have a range of services," said Charles Villiers, chief executive of County Bank, National Westminster's merchant bank subsidiary. "We have only been able to act as underwriters."

Stock exchange rules now limit outside holdings in member firms to 29.9 percent, but British banks expect this ceiling to be increased or abolished as companies seek more capital to compete with the giant U.S. and Japanese securities firms.

In addition to eliminating fixed (Continued on Next Page)



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BANKING AND FINANCE IN BRITAIN

Citicorp Growth Spreads Fear Among Competitors

LONDON—As part of a worldwide expansion, Citicorp has begun intensive efforts to penetrate the British market further. British banks are increasingly concerned that the U.S. corporation could seriously threaten their dominance of the British financial scene.

"We see in the next 10, 15, or 20 years' time three kinds of financial institutions surviving and prospering," said John Atkin, a London-based economist at Citibank: "those that are supermarkets and are doing everything, those that are like quite substantial food retailers with a geographical or product bias, and those that are like the corner deli or specialist cheese shops."

Of these, Citicorp sees itself becoming a financial supermarket in Britain and beyond.

With its financial muscle, Citicorp is "willing to get into anything and willing to take risks before anyone else," said an American banker who asked not to be identified. "This is their hallmark."

In Britain, Citicorp is well-known among the multinationals and has also developed a fairly extensive retail market, but believes it cannot call itself a financial supermarket unless it provides services for companies at the mid-corporate level.

"We believe we have too strong a bias at the higher end" of the market, Mr. Atkin explained. While Citicorp does not plan to neglect its important multinational or retail customers, within the last year it has begun a new effort in Britain aimed at wooing the smaller mid-level companies.

Citicorp is attacking this market in areas in which it is strong. Some of the services it is attempting to provide such companies include more efficient foreign exchange transactions, loans, trade finance and deposit facilities. It is trying to move into this market by offering more efficient services that rely on its global communication network.

"The magic word that distinguishes financial supermarkets is 'network' — not just bricks and mortar, but electronic," Mr. Atkin said.

Not only is the company moving down-market in Britain, it is expanding more into retailing and investment banking activities. Citicorp is trying out ideas in Britain and expanding in ways that would not be allowed in the United States because of government regulations. For example, within the last year the company has started working toward expanding into stockbroking and insurance. And over the

last few years it has gotten more heavily involved in bond underwriting.

Recently, Citicorp acquired a 29.9-percent stake in Vickers du Costa (Holdings) Ltd., a London stockbrokerage with Hong Kong and Tokyo offices. Citicorp saw the brokerage as a way to acquire experience both in the changing British stock market and in the Far East.

Insurance is an area that is off-limits to banks in the United States. But Citibank Savings, a British subsidiary of Citicorp, has begun offering credit-card insurance. A customer pays a small premium on his normal card charges for insurance that will make his payments in the event of unemployment, injury or other mishap. Citicorp is also considering selling car and life insurance in Britain.

Unrestricted by U.S. regulations, Citicorp's London office has been one of the leading U.S. players in the Eurobond market. It says its business has tripled in the last 18 months. Last year it was the lead manager for \$450 million of Eurobonds, compared with \$325 million in 1982.

As Citicorp has become more active in the Eurobond market, it has also been one of the first banks to realize the high profits that could be earned in interest-rate and cur-

rency swaps, where a bank arranges for a borrower to exchange its fixed-rate obligation for another's floating-rate obligation. One of the main advantages of using swaps is to get cheaper money. Within the last few years, Citicorp has probably transacted more swaps than any other bank, one American banker said. Its closest competitor is Morgan Guaranty, with the British merchant banks far behind.

At the same time Citicorp has been expanding into nontraditional areas of commercial banking. A few years ago it began offering retail store credit programs. The first, called a budget account, gave a customer a checkbook and check guarantee card for use only at Marks & Spencer's stores.

Citibank savings, a British subsidiary of Citicorp, subsequently arranged variations of the program at Alders department store, Rich and Shops and Colliers Shops, all British retail stores.

While Citicorp is looking for ways to expand its influence further, it already has a network of 38 branches in Britain. Known as money shops to Citibank's competitors, they specialize in offering consumer credit. Although the network is extensive, the services are not comprehensive — they do not

include corporate services or current account facilities.

In another move that could significantly affect the British financial scene, Citicorp has applied to become a clearing bank, a member of Britain's national check clearing system. The system is operated by Bankers Clearing House Ltd., a company owned in turn by the Committee of London Clearing Banks (CLCB), a trade association of major banks. The Bankers Clearing House has 10 member banks, six of which are executive members and determine bank policy and manage the clearing system.

The six are Barclays Bank, Lloyds Bank, Midland Bank, National Westminster Bank, Williams & Glyn's Bank and Coutts & Co. It is with the remaining four, the functional members, that Citicorp would like to have a seat. They are the Bank of England, Trustee Savings Bank, Co-operative Bank and National Giro Bank.

Citicorp sees several benefits to becoming a clearing member. It wants to be viewed as an indigenous British bank, not a big foreign bank. Citicorp says not being a member hinders it in its overseas correspondent banking business from London.

"A lot of companies deal in sterling and are not inclined to use Citicorp because it is not involved in the clearing system," Mr. Atkin said.

In addition, he said, there is a perception in the market that because it is not a clearer, Citicorp is somehow inferior and does not have a strong commitment to the market.

"This is not a competitive disadvantage with sophisticated customers, but it is with customers below that," Mr. Atkin noted.

The reaction of British bankers to the idea of Citicorp's becoming a clearer has been at best lukewarm and at times downright frosty.

The British have been equally unhappy about Citicorp's other aggressive expansion plans.

"British banks are a little fearful of Citicorp," one banking source said. "They feel Citicorp is too abrasive and too clever by half. But Citicorp is laughing because it is making all the money."

"I don't think there is any other foreign bank that poses as much of a major threat from the outside as Citicorp," another banker said. The company's drive to attract the mid-market corporate customer is directed at what has traditionally

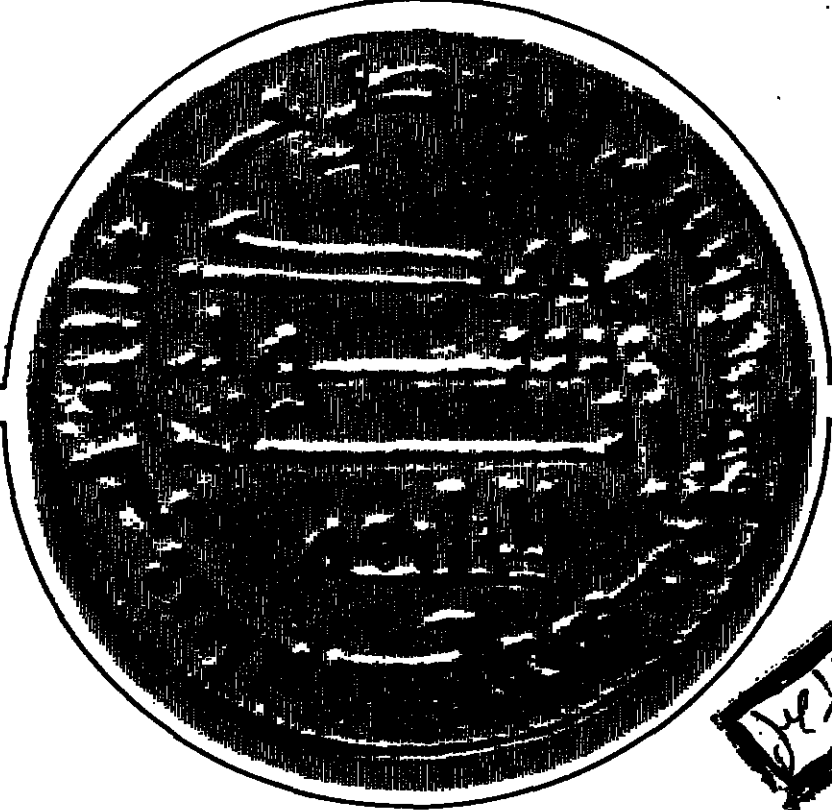


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been the backbone of the British banks' market, he added.

Citicorp's ability to diversify and experiment has made British bankers anxious. "Soon they'll decide which direction to drive and will cause a splash, which causes ripples, maybe a wave," a British banker said. "They have enough financial muscle to make a big impact."

The status of Citicorp's applica-

tion to become a clearing bank member is unlikely to be decided before the end of the year. Citicorp submitted the application late last year. Then, after Standard Chartered also applied to become a clearer, in March the clearing banks announced they were reviewing all elements of the system. They later asked the two banks to defer their applications pending the outcome of the review. Citicorp

expects the report near the end of the year.

Even if its application is approved, bankers do not believe that Citicorp's membership would have as great an impact on the British banking scene as will its expansion plans. One British banker said, "We're going to have to fight hard to protect the business for the U.K."

—LYNNE CURRY

Fears of U.S. Dominance Receding

(Continued From Previous Page)

events that is emerging in London."

Meanwhile, Prudential/Bache Securities, a subsidiary of Prudential Insurance Co. of America, set up a British brokerage with the two former heads of the corporate finance department from the brokerage James Capel & Co. The new firm, P-B Securities Ltd., does not plan to acquire any market-making operations at present, but "I suppose all things are possible," said Bill Hulton, senior vice president of Prudential/Bache Securities.

"We believe that the way we have done it enables us to control our own destiny" more than if Prudential/Bache had bought into an existing brokerage, Mr. Hulton said.

Other U.S. firms, such as Dean Witter Reynolds Overseas Ltd., have no current intention to jump into the fray. "Our plan at this moment is merely to say to the U.K. market, 'We're here,'" potentially for a joint venture, which would be run by the British partner, said John Pelling, chairman of the Dean Witter unit.

Morgan Stanley International

says it will continue to expand its existing British businesses, increasing staff to 260 by the end of this year from 150 a year before, and mostly hiring locally. But Managing Director Archibald Cox Jr. said, "We have no plans at all to enter the U.K. domestic market."

For the present, at least, the American threat appears to have been exaggerated. While many British firms seem embroiled in a damn great rush with no great plan, as a British broker said, "the American houses are acting as though they've got time on their side."

Merchant Banks Seek Greater Role in Securities

(Continued From Previous Page)

commissions on securities transactions, the stock exchange has been asked to allow broking and jobbing by the same organization.

With deregulation rapidly approaching, and in an effort to demonstrate their determination to play a major role in the development of the stock exchange, the big merchant banks have concluded a dizzying series of mergers and deals with brokers and jobbers. Of about 20 active merchant banks in the City, nearly half have formed alliances designed to cope with deregulation.

Merchant banks have had an added incentive to buy stakes in securities firms: Pressure has been growing for all British securities transactions to take place on the stock exchange, partially for regulatory purposes. How the securities industry should regulate itself is still being debated, but observers believe that if a bank is not a member of the stock exchange, it might not be eligible to participate directly in the stock market.

Thus, the banks have felt compelled to acquire expertise in the stock market if they wish to be directly involved in securities dealing. With far fewer jobbing firms than brokerages, demand for jobbers has been greater than for brokers. Bankers have also preferred the jobbers' dealing capability to the brokers' distribution network. Even so, each merchant bank has sought firms with skills best suited

to mesh with its own requirements.

For example, one of the biggest deals involves a three-way link-up by Barclays merchant bank, Wedd Durbacher Mordant & Co., one of the City's largest jobbing firms, and de Zoete & Beyer, one of the top 10 brokerages in London. The combination will transform the merchant bank into an international securities firm. Barclays holds a 29.9-percent stake in Wedd and plans to raise its holding to 75 percent if rules eventually permit. It has formed a similar arrangement with de Zoete.

Barclays bought both a broker and jobber because the bank believed it needed de Zoete's distribution network as well as Wedd's dealing capability. Barclays has no immediate plans to buy another jobber or broker in Britain, but Mr. Buxton said the bank was considering acquiring a brokerage firm overseas.

County Bank, the NatWest subsidiary, has acquired the maximum 29.9-percent stake in jobbers Biggood Bishop & Co. The bank acquired this holding because it sought a specialist in equities. It did not want a gilts jobber, whose expertise is in government securities, because the Bank of England is changing the gilts trading system.

Mercury Securities, parent company of the merchant bank S. G. Warburg, has acquired a stake in the jobbing firm Akroyd & Smithers to develop trading and distribution activities in securities. Akroyd has in turn formed an alli-

ance with Rowe & Pitman, a stock broker, to develop the international equity business of both companies. N. M. Rothschild, another merchant banker, has teamed up with Smith Bros., a stock jobber, because of its market making expertise in international securities and gold markets.

Morgan Grenfell, a leading merchant bank in mergers and acquisition advice, bought a stake in the jobbing firm Pinchin Denby & Co. because it is active in the equities and gilts markets. Pinchin Denby was one of the last jobbing firms of a significant size available to provide market making expertise in any new alliance.

This stamping includes only link-ups with jobbers. Some merchant banks have also been buying securities firms.

Not all have been moving toward mergers or alliances. "We believe that a market is made out of diversity of opinion and that it is a mistake to follow the herd for the sake of the herd," said Ian Fraser, chairman of the merchant bank Lazard Bros., which recently formed an international partnership with Lazard houses in New York and Paris.

Mr. Fraser said that the goodwill cost — the difference between the net worth and the going market rate — of acquiring brokerages or jobbing firms was too high, and that cultural differences between banks and brokers were too great to produce successful mergers.

If Lazard decides to expand in

the securities market, where it is already extensively involved as an underwriter and fund manager, Mr. Fraser said the bank would "acquire people rather than firms."

Lazard's approach to the coming changes epitomizes the attitude of a number of merchant banks. A strong merchant bank that is able to carve a niche for itself should still do well without expanding into securities dealing, bankers said.

Still, the prevailing trend is mergers and alliances. One consequence of these liaisons is that the merchant banks will increasingly come to resemble U.S. investment banks: They will be able to make markets in securities, distribute them to clients, provide investment research and manage third-party portfolios.

Bankers say, however, that the merchant banks will retain their British character, that, unlike U.S. investment banks, they will have the additional advantage of being able to act as commercial banks, accepting deposits and making loans. U.S. commercial banks are barred by law from lending and underwriting securities.

In addition to broadening the role of British merchant banks, deregulation will have a widespread impact on how the City does business and could well pull London out of its financial doldrums.

"There was a fear many had that, without these changes in the U.K., London would've been a backwater — much would've passed London by," said John Atkin, a Citibank economist based in London.

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BANKING AND FINANCE IN BRITAIN

Investor Protection: Awaiting the New White Paper

Special to the IHT

LONDON — Six months ago, Professor Jim Gower submitted a report to the Department of Trade on how investors could be protected in Britain's rapidly changing financial markets.

Professor Gower proposed a number of self-regulating agencies, or SRAs. These would be the day-to-day policemen of the markets. Brokers, jobbers, futures traders, insurance underwriters and investment advisers would have to register with their industry's SRA, directly with the Department of Trade or with a supervisory commission charged with coordinating the SRAs. In addition, investors would have the formal protection of a new law.

As matters stand, an aggrieved investor has no clear avenue of redress — the stock exchange? the police? the Department of Trade? the ombudsman? — nor any reason to suppose that a sharp practice will get anything but short shrift from the authorities.

The stock exchange, for example, said in its 1983 report and accounts in May that it had investigated more than 13,500 share-price movements for insider dealings. Almost 500 were investigated in detail and 59 singled out for formal inquiry. Twenty were passed on to the Department of Trade with a view to possible prosecution. On the evidence of previous years, only one or two of these will go to trial.

Alex Fletcher, the minister in charge of corporate and consumer affairs at the Department of Trade, said last month that a small number of SRAs might be enough to prevent abuses. He suggested four — for dealers and brokers in securities, for dealers and brokers in futures and commodities, for investment managers and for the insurance sector.

His suggestion is an indication of government thinking, which will become clearer with the planned publication of a White Paper in November.

ber and the introduction of legislation in 1985 and 1986. The department has solicited comments on the Gower proposals from City firms and will use them in drawing up the White Paper.

Investor protection has become especially urgent because British markets have undergone sweeping changes, with more on the way. Some of the changes will weaken the already weak safeguards the investor has.

The scrapping of single capacity — the uniquely

selling tactics or mismanagement of unit trusts as dumping grounds for dud securities.

Still, it helps to set the moral tone. Now it will probably be abandoned for blue-chip equities, and ultimately for minor stocks as well. A rearguard group of medium-sized and small stockbrokers was formed in May to campaign against dual capacity, which they see as a threat to their livelihood and to trading liquidity in less-familiar equities. Their efforts are likely to mean a much slower

bank that holds his overdraft or car loan. If he complains about the insurance policy bought at a booth in his favorite department store, will the store cancel his credit card?

Changes have come so fast, and on so broad a front, that some people have begun to argue that the Gower proposals are inadequate a bare six months after their publication.

Whether self-regulation will suffice is doubtful, but neither the government nor the City wants to see formal regulation along the lines of the U.S. Securities and Exchange Commission or Commodity Futures Trading Commission.

Norman Tebbit, secretary for trade and industry, said on a visit to the United States in May that, while changes to protect investors were necessary, they would not necessarily mean "an intrusive government, still less an obtrusively legalistic framework."

Debate has started on what extra safeguards investors might need. Among the suggestions being put forward are better information on market prices and declarations of interest by principals, both ideas taken from the U.S. markets.

A ticker-tape monitor of stock exchange dealings would provide an excellent check on trading abuses. Exchanges in other countries use the system, and futures markets compile similar records. These provide the essential statistical base for investigating suspicious trading patterns.

Declarations of interest put the investor on his guard. Subscribers to Salomon Brothers research publications on equities, for example, will find on the back page several paragraphs of closely printed information on Salomon's holdings of recommended or not-recommended stocks, including the firm's holdings of put or call options, and whether the firm is a market maker in the stocks. No investor can reasonably claim after the event that Salomon puffs stocks it holds so as to fool the small investor.

'Debate has started on what extra safeguards investors might need. Among the suggestions being put forward are better information on market prices and declarations of interest by principals.'

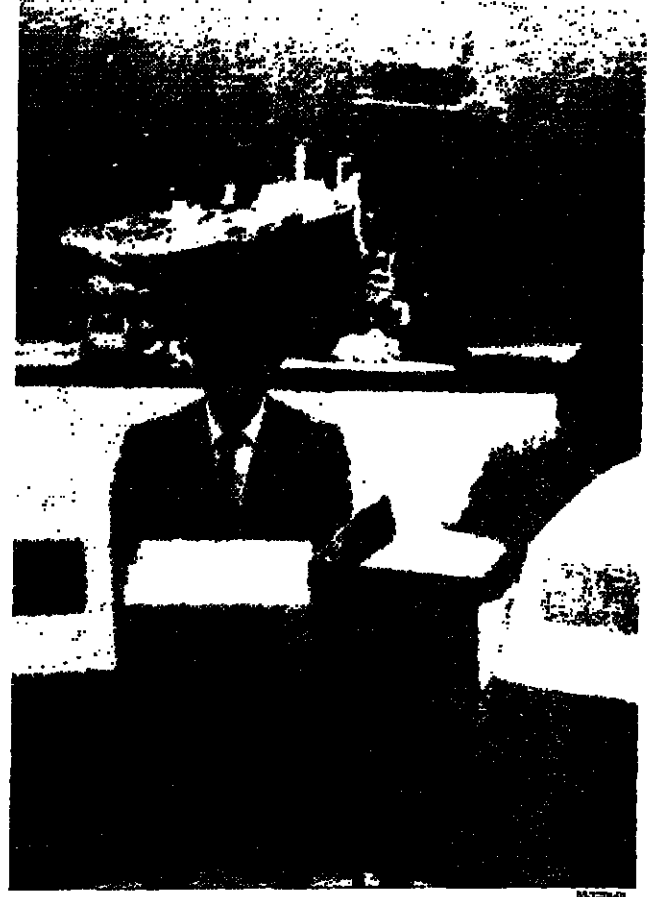
British differentiation between stockbrokers, who act as the investor's agent, and jobbers, who make a market in stocks as principals — will allow firms to act both as agents and principals. In theory, single capacity protects the investor by entrusting his order to a broker who cannot manipulate the market price.

In practice, it is not difficult to see loopholes, and in any event an investor would have great difficulty even beginning to establish that he had been badly treated, since the stock exchange does not operate a ticker system listing each trade and its price. Single capacity gives strictly limited cover against one type of exploitation; it does not deal with misleading advice, negligence, the churning of customers' accounts for higher commission, unfair

phasing out of single capacity than the stock exchange planned. In the longer term, however, dual capacity is inevitable and with it the exposure of investors as principals — with the possibility of the broker using the retail investor to realize the profits on the broker's own portfolio.

In other markets, too, changes are making it more difficult for investors to ensure that they get a fair deal or, if there are problems, that there are effective remedies.

The fashion for financial conglomerates, in particular, makes it a lot harder for an investor to pursue a grievance. An investor who has lost a bundle in financial futures because the risks were glossed over by an enthusiastic salesman may be intimidated if the salesman's firm belongs to the



The London Oil and Petroleum Futures Exchange.

Brokerage Scene Will Be Radically Altered by Deregulation of Securities Market

LONDON — When the game of musical chairs finally ends and the actual deregulation of the City of London is under way, not much of what is left will look familiar.

The future London market is widely expected to be dominated by international multifaceted financial firms modeled on U.S. investment banks. In preparation, companies with broking and market-making expertise are seeking sources of capital to carry them over the crest of the wave. New announcements are made almost daily, linking various domestic and some foreign companies.

People in the middle of all this wheeling and dealing freely admit that certain key questions remain unanswered. For instance, to what extent will a given firm be allowed to practice both broking and market-making in domestic stocks? And will the new method of market regulation, as yet undetermined, be in place by the 1986 deadline? But still the deals continue.

"Whatever they do with the rules, if you're not in the race you may be dead," said a partner in a medium-sized brokerage. "Now you've got a situation where people can't afford to be left behind."

The larger British brokerage houses have been in good demand, with a medium-ranked firm selling for as much as 11 times earnings. Only a handful of the top-tier brokerages are not yet spoken for, and some of those are rumored to be planning to go it alone, possibly seeking a silent partner or selling shares to the public.

Anticipation of deregulation, particularly in the market for British government, or gilt-edged, securities has also sparked demand for jobbers, or market-making firms, and discount houses, which trade short-term government securities and other money-market instruments. Mercantile House Holdings PLC, already linked with one discount house, recently announced that it would join forces with a

second, as well as with the big British brokerage Laing & Crickshank. Mercantile's chairman, John Barkshire, said Mercantile now had "the major bricks in place" to become a strong force in the new market.

In one of the biggest deals announced so far, Barclays Bank plans to join with Wedd Durlacher, Merdant & Co., one of the two main gilt-jobbers, and the brokerage de Zoete & Bevan. Once the rules allow it, a new company will emerge incorporating elements of Wedd Durlacher, de Zoete and Barclays' merchant banking unit, to be 70 percent owned by Barclays Bank PLC.

The Los Angeles-based bank holding company Security Pacific Corp. acquired 29.9 percent of Hoare Govett Ltd. in June 1982. That is the maximum stake now allowed an outsider. Security Pacific did not get an option to increase its share if the rules change to allow it, and market watchers speculate

that the brokerage could sell out to a higher bidder. Hoare Govett's chairman, Richard Westmacott, would say only, "We have a very happy relationship with Security Pacific."

Edinburgh-based Wood, MacKenzie & Co. broke off talks last November with Exco International PLC. Last week Hill Samuel Group PLC, a merchant banking, investment management and life insurance company, announced plans to link with Wood, MacKenzie.

James Capel & Co., widely respected for its research department, is understood to be looking at potential partners. Other large brokerages still unattached include Grieson Grant & Co., Phillips & Drew and Cazenove & Co. Some observers believe Cazenove stands a good chance of surviving independently, drawing on its corporate finance skills to transform itself into an investment bank.

Rumors have linked Grieson Grant with various potential partners, among them National Westminster Bank PLC, whose merchant-banking unit has joined with the jobbers Bisgood Bishop & Co. Phillips & Drew says it does not rule out a possible link and says it intends to retain its prominent position in trading gilts.

Phillips & Drew had been rumored to be considering selling its fund-management business, taking the brokerage out of competition with merchant banks that could be potential partners. But Phillips & Drew is "not at the moment inclined to dispose of" the fund-management side, said Peter Parker, deputy senior partner.

W. Greenwell & Co., the other major broker noted for its gilt business, has linked with Samuel Montagu & Co., the merchant banking unit of Midland Bank PLC. Several brokerage houses and jobbers, taking advantage of relaxed restrictions on trading overseas securities, have set up interna-

tional dealerships. These new companies are licensed by the stock exchange, and although they can trade only in non-British securities they are allowed to practice as both agents and market-makers.

The plans for international dealerships were already under discussion when it was agreed last summer to reorganize the stock exchange, and some observers believe such dealerships will become obsolete if the exchange, as expected, allows dual-capacity dealing in domestic securities. Others, however, see the dealerships as useful testing grounds.

"It might give us an indication of how far we shall be drawn into market-making," said the chief executive of a major brokerage with an international dealership. Sentiments about the coming changes in the stock market are mixed among the small- to medium-sized British brokerages. Many complain that they have not been sufficiently consulted. Some re-

main opposed to changes in the dual-capacity restrictions and outside-ownership rules.

"One doesn't wish to see ownership of the London Stock Exchange dissipated around the globe," said Graeme Living of Henry J. Garratt & Co., a nine-partner brokerage.

Just how much weight the opposing side weighs is open to question. The more outspoken small firms contend that not all of the expected changes are inevitable. But it appears that the only real widespread support for the opposition centers on its efforts to slow things down.

Observers believe many of the smaller brokerages will be able to pass into the new market relatively unscathed and independent, able to continue conducting single-capacity business. In particular, small firms with a high proportion of private clients or those that deal in specialty stocks could fare reasonably well. It is the middle-sized

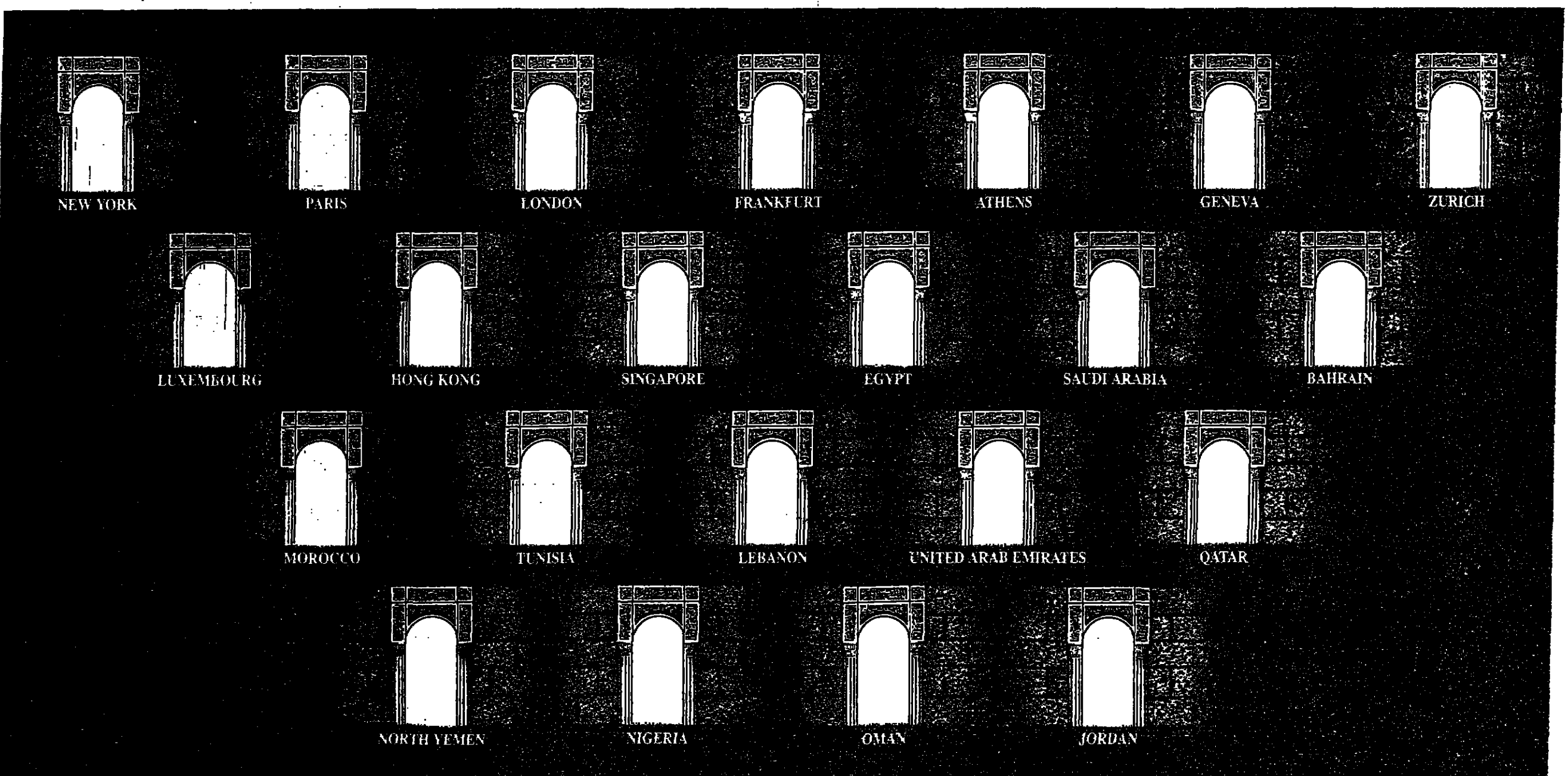
firms that observers say are most vulnerable to being squeezed out.

In the hope of remaining independent, one middle-sized brokerage says it will strengthen the half of its business that deals with private clients and managed funds, so as to underwrite the risk it will incur on its institutional side.

But at the same time, said this firm's senior partner, "we are very conscious of the fact that in America those firms that sought to play in a marketplace outside their league actually came unstuck fairly quickly."

A partner in another profitable medium-sized firm contended that most firms of its size would be taken over. "We're just going the way of normally expanding our business and being realistic," he said. "We're not sitting in an ivory tower thinking that nothing will happen to us. We're all going to end up as different animals."

—BARBARA ROSEN



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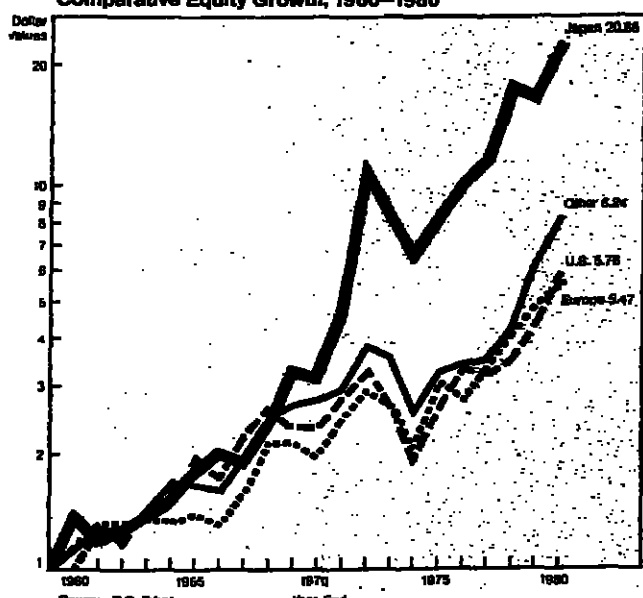
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BANKING AND FINANCE IN BRITAIN



A quiet moment in trading on the London Corn Exchange.

3 Firms Are Creating Diverse Empires But the Markets Remain Doubtful

LONDON — As London's financial markets lurk toward de-regulation, few major banks and brokers are missing the chance to move into new activities. But three companies — Charterhouse, J. Rothschild PLC, Exco International PLC and Mercantile House Holdings PLC — have stood out by using rapid-fire acquisitions to patch together empires fitting their visions of the future.

In the past three months, shares of all three companies have plunged about 25 percent, much steeper than the drop suffered by the stock market as a whole.

In a large part, the plunge seems to reflect investors' anxiety about the feverish pace of change in London's financial markets. "Nobody really knows what's going to happen in London," notes Martyn Ralph, an analyst at the stockbrokerage Hoare Govett Ltd. In addition, financial-services companies are usually among the worst casualties in a bear market.

But the market also appears to be registering serious doubts about whether the three companies can blend strings of diverse, independent-minded firms into cohesive teams able to take on the giants of Japan and the United States.

Building a securities house through a series of acquisitions is "a little bit like buying a car by going out and buying all the parts," argues Roy Smith, chairman of Goldman Sachs Ltd., the London unit of the U.S. investment bank Goldman Sachs & Co. "It might be the best car in the world, but it's not easy that way."

Responds Mercantile House's chairman, John Barkshire: "I'm not pretending it's going to be dead easy, because it isn't."

One company that has managed

to mold a powerful securities house out of myriad acquisitions is Shearson Lehman/American Express Inc., the investment banking unit of American Express Co. But Shearson, a rival banker said, succeeded in integrating its many parts only by "bashing them into a kind of common jelly."

"The reason Shearson is successful," said another American investment banker, "is that they haven't let any of their small entities go their merry little way."

Now some analysts are questioning Shearson's ability to digest its latest purchase: the New York investment bank Lehman Brothers Kuhn Loeb Inc. After the \$360-million acquisition was announced in April, American Express shares dropped sharply.

It is clear that financial super-markets are suffering a drop in popularity on both sides of the Atlantic.

In response to doubters, the three British companies say they do not have time to build up powerful securities-trading organizations through internal growth alone.

Exco and Mercantile House started out as international money brokers and have diversified rapidly over the last few years. Both also have definite ideas about the likely direction of change in the City.

"A new breed of securities house will emerge, looking very much like a U.S. investment bank," says Mercantile's Mr. Barkshire. What he has in mind is a securities company with expertise in trading, research, underwriting, sales and advisory services. Since no such British company exists, he says, Mercantile is building one, "brick by brick."

In August 1982, just before the explosive rally on Wall Street, Mercantile bought Oppenheimer Hold-

ings, parent of the New York investment bank Oppenheimer & Co., for \$91 million. Last month, Mercantile agreed to buy a 29.9-percent stake in the London stockbrokerage Laing & Crickbank.

It has also acquired two London discount houses. Discount houses act as intermediaries between the Bank of England and the banking system, trading short-term government securities and other money-market instruments. Mr. Barkshire expects that his new combined discount house will eventually be allowed to trade in long-term British government bonds as well.

Among Mercantile's other interests are a U.S. government bond brokerage and the commodities brokerage Rouse Woodstock. Mercantile is also involved in leasing and fund management.

Not to be outdone, Exco bought a stake last month in Galloway & Pearson, a small London broker. Exco also owns a Hong Kong-based broker, W.L. Carr Sons & Co., which has offices in London, New York, Tokyo, Kuala Lumpur and Zurich.

In addition, Exco has moved into venture capital, investment management and the *à la carte* market, which involves trading of bank-guaranteed promissory notes or bills of exchange used to finance trade.

So far, Exco's most lucrative investment has been its 52-percent stake in the New York-based financial information service Teledata Inc. Teledata accounted for about 57 percent of Exco's 1983 pretax profit of £32.5 million.

If anything, Charterhouse's J. Rothschild is more complicated than Exco and Mercantile. CJR is the result of December's merger between Charterhouse Group PLC and RIT & Northern PLC.

—BOB HAGERITY

Taxing Foreign Executives Out of U.K.?

By E. A. Ostro

LONDON — Removal of personal tax benefits for at least 15,000 foreign executives working for overseas firms in Britain — 10,000 of them in financial institutions in the City — will have a major impact on London's banking and financial community, most executives of foreign companies based here agree.

The budget presented in March by the Chancellor of the Exchequer, Nigel Lawson, will eliminate by 1989 the 50-percent personal tax relief that foreigners employed in Britain by non-British firms have enjoyed.

Thus, if net salaries are to be maintained, hundreds of foreign financial institutions in the City — including about 200 U.S. banks, brokerages, insurance companies and other enterprises — will face salary bills half again as much or, in most cases, twice the current ones by 1989.

The 50-percent allowance was granted for the first seven years a foreign employee was resident in Britain, and a 25-percent benefit was given for the two years following, with full British income tax payable after nine years of residence. Most overseas executives stay in Britain less than seven years.

The 1984 budget allows no benefits for newly arriving executives. For those already resident, it cuts the 50-percent remission to 25 percent in April 1987 and to zero by April 1989.

Tax exemptions for fringe benefits such as free housing and cars will also be removed.

"The cost to foreign companies here will be enormous," says Graham Hatton, human resources analyst for Business Europe Ltd., a subsidiary of Business International, New York. "Take an executive earning \$100,000 now. His taxable

income is \$50,000 and his net tax is likely to be something like \$17,500 today, leaving him with a net \$32,500.

"Under the new plan, he'll be left with \$65,000 — and fewer nontaxable benefits. To get his net up to current levels under the new system, he'd need gross income of more than \$150,000."

"Many firms, according to our research, simply aren't going to pay that much more and several of them have already indicated plans to shift to Brussels," Mr. Hatton said.

Roy Chapman, an executive of Arthur Anderson & Co., accountants, feels that "the budget will have a serious effect on persons from abroad who come to work here. Many will be paying more tax than at home. I doubt all foreign companies here will raise salaries to compensate."

Herschel Post, president of American Express Asset Management NV and a former Morgan Guaranty Trust executive, points out that many executives' salaries were calculated when the pound was worth \$2.55.

"Although the dollar remains strong these days," Mr. Post said, "I think foreign companies here will be still forced to make some painful decisions about those executives whom they want to keep permanently and those who can be let go. Doubtless the budget will be a significant cut in the number of expatriates; the current strength of the dollar, which of course makes British salaries cheaper, is, after all, only a passing phenomenon."

Most U.S. financial executives doubt that there will be any mass exodus of foreign banks. "This will just be another cost increase," said Fritz Anton, London manager for Austria's Girozentrale Vienna.

R. T. McLaughlin, deputy regional director for the International Planned Parenthood Federation, said: "We can make the new system affordable for our people."

Philip Gillet, tax partner at Price Waterhouse, accountants, noted, however, "There must be a significant impact on many foreign banks that employ overseas staff here. Most companies provide their employees with a tax-protected package, so this change will mean the companies rather than the individuals face additional costs."

The budget also removes marginal advantages for foreign employees in Britain. For example, until last April 6, individuals were

taxed only on the assessed (taxable) value of the company-owned houses in which they lived. Now, an additional 12 percent of the value of the property over \$75,000 becomes liable for tax. (This measure had been announced in the 1983 budget.)

The 1984 budget was greeted with general approval by Britain's business community, as it lowers British personal and corporate taxes somewhat. A Treasury spokesman commented on the impact on foreign executives:

"We feel that in many cases the jobs could go to U.K. nationals; we have been very generous in allowing foreign companies to employ their own nationals here even when the need for employing a foreign person rather than a British person was not altogether convincing. And where foreign executives are sorely needed, we have no doubt that the non-British firms will cope."

Americans in London, by and large, are not too glum. Says Miles Roberts of Thomson McLintock: "This may encourage companies to employ more U.K. nationals. It is taking more of the icing off the cake rather than removing the cake itself. The Japanese will still have much cheaper golf over here."

—BOB HAGERITY

Competition Alters Eurobond Trade

(Continued From Page 7)

is that the Inland Revenue's desire to keep Britons from escaping withholding taxes will increase competition into conflict with London Eurobond business, bankers say.

In response to competition, many Eurobond firms are diversifying the mix of their business. Trading and underwriting Euro-dollar bonds has been the main business from the start. Now many firms have begun to deal in bonds

denominated in other currencies, such as Deutsche marks, guilders and yen. Several firms recently hired yen bond dealers, hoping that the Euroyen bond business would expand briskly now that Japanese authorities are loosening restraints on their market. Another source of expansion has been interest rate and currency swaps, in which future interest or currency liabilities are arbitrated between markets.

Some bankers say traditional Eurobond distribution channels can be used to sell shares. If the U.S. Congress does remove withholding taxes, London is well-situated to sell U.S. Treasury bonds on a bigger scale. A large business in London already takes place in U.S. Treasury bonds. As long as an investor is prepared to trade between the coupon payment dates, the U.S. withholding tax can be avoided because the accrued interest is paid to the seller.

—BOB HAGERITY

BANKING AND FINANCE IN BRITAIN

Sales of Nationalized Firms Continue Despite Controversy

LONDON—True to its election promises in 1979 and in 1983, the Conservative government is selling industries long nationalized in an effort to get the economy onto an efficient and modern basis.

The government calls this privatization. Among the companies it has sold all or part of are the communications giant British Telecom (a sale still going on), British Petroleum (proceeds £276 million), British Aerospace (£43 million) and Cable & Wireless (£82 million in the first sale, £76 million in December).

Prime Minister Margaret Thatcher has done as much as anyone in the government to push the policy, which the opposition Labor Party strongly disapproves of; the Social Democratic and Liberal parties are mildly opposed.

"Privatization continues to be a key element in our economic strategy," Mrs. Thatcher has said. "It opens up new areas to the disciplines of market forces, promotes competition and efficiency and improves the quality of service to the consumer."

The prime minister was quoted recently as noting that "British Aerospace, Cable & Wireless, the National Freight Co., British Associated British Ports Holdings and parts of British Steel have all been transferred to the private sector. We plan to privatize the British Gas Corp.'s major oil interests, to sell shares in British Telecom and to transfer British Airways to the private sector as soon as possible. We will continue to identify and prepare other potential candidates for privatization among the nationalized industries."

In such preparation, British Airways has been trimmed sharply of

excess labor and unprofitable routes. In 1983, the airline actually made a profit (discounting government subsidies) for the first time in decades. As Mrs. Thatcher has put it: "We have set a tight financial framework to ensure that disciplines that are common for the private sector are also imposed on the nationalized industries. 'The best way in the long run is to expose the industries to the effects of market forces — through the reduction of monopoly, and through privatization including joint ventures and the introduction of private finance.'"

The latter has come into the foreground recently as the electronics group Thorn EMI, which had £3 billion in sales in 1983, astonished the British financial world by revealing that it was negotiating with British Aerospace and a merger "could result."

The government owns 48.43 percent of BAE, which had £2.3 billion in sales last year. It is expected to approve the merger, although it is likely to retain about 25 percent of voting rights since BAE is a major military contractor.

The aims of privatization, according to government officials, are to lower costs for consumers and to generate a healthier competitive climate in British industry. But it is only one aspect of the government's policy to streamline industry. The tripling of bankruptcies since 1979 is another indication of the Thatcher government's determination to make British industry efficient and to raise productivity.

To no one's surprise, the Labor Party sees it differently. "What is happening in front of our very

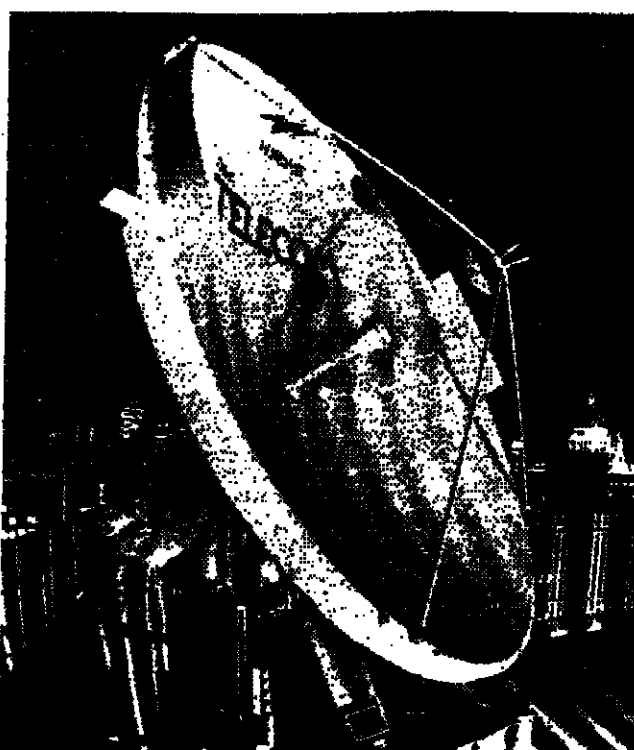
noses is the wholesale giveaway of industries that belong to the British people to private interests for profits that are completely absurd," Labor's leader, Neil Kinnock, said in an interview. He refuses to commit himself on whether he would renationalize if Labor took office, but no one doubts that at least a few of the industries sold to private investors will be taken over again. "We've got to do something like that or we'd be the laughingstock of the whole country," said a longtime Labor supporter.

A spokesman for the centrist Social Democratic-Liberal alliance commented: "We feel that privatization is largely irrelevant, although we are not opposed to it altogether. If the government can make industries efficient before selling them off — as they must and as they have done with, for example, British Airways — what is the point of denationalizing them? The complaint about nationalized industries has always been that they are inefficient, what Mrs. Thatcher has done is to prove that they can be efficient. So why then privatize?"

Mrs. Thatcher, not known for giving way graciously to opposition arguments, will be selling the profitable Jaguar division of the loss-making state automaker, B.L., this summer. General Motors of the United States and West Germany's Daimler-Benz have shown interest, and there are a number of plans to try to ensure that Jaguar remains British, though none has won government approval. Several members of Parliament have spoken out against the sale, saying it would hurt B.L.'s struggle for profitability.

Other nationalized companies already privatized wholly or in part include British Sugar Corp. (proceeds £44 million); Amersham International (£64 million); National Freight Co. (about £50 million); Briouli (£634 million); Associated British Ports (£45.5 million); International Aeradio Ltd. (£260 million, to British Airways); and British Railway Hotels (£40 million, to British Railways).

Despite some hiccups — for example, Amersham was offered at far too low a price — privatization appears to be succeeding. The company shares being sold by the government are if anything oversubscribed, and the atmosphere in the City is something like that of a gigantic homestead scramble, an American observer said.



British Telecom's Satstream aerial on Fleet Building.

3 Scottish Banks Find Ideas Can Fend Off Big Competitors

By Andrew Marr

EDINBURGH — Consider three banks, two of them independent, in a country of five million where the manufacturing base has shrunk so much that some observers fear it might fall below the critical mass needed to sustain a modern industrial economy.

In an era of financial expansion and alliance, when the City of London, always Edinburgh's bully brother, is tooling up for ever-bigger financial conglomerations, there is a danger of the Scottish banks' becoming corner shops to the financial supermarkets of the future.

The Bank of Scotland, the Royal Bank of Scotland and the Clydesdale Bank have each in its own way devised a strategy for dealing with this danger.

The Bank of Scotland's answer is perhaps the most interesting. Dubbed by admirers the Bank of Technology, it has stolen a march on all its British rivals in the home banking race. The idea is to expand into England through the television screen rather than the arduous and probably futile route of setting up a great network of branches in alien and well-banked territory.

In November 1982 the bank introduced its Homelink with the Nottingham Building Society. The first British electronic home banking system, it allows the customer to pay bills, send letters to the building society, check and operate mortgage and savings accounts and run a Bank of Scotland account, all through the television set. It is proving a great success.

Another recent Bank of Scotland innovation is the money market check account, a high-interest de-

posit vehicle through which clients get a checkbook, have money-market-related interest rates paid gross, and receive no penalty or loss of interest for withdrawal. The requirements of an initial minimum deposit of £2,500 and subsequent deposit and withdrawal minimums of £250 did not deter depositors, who have lapped the service up.

This year the bank brought in a direct link between its noninterest current account and an interest-earning building society account. Alliance BankSave, organized with the Alliance Building Society, has been called the most revolutionary link between such institutions in British banking.

It offers a full-fledged current account with all the customary trimmings, but the bulk of the cash deposited is in the building society, from where the bank's account is topped up when it falls below £100. The system is attracting custom from rivals.

Other bright Bank of Scotland ideas include a link, announced in March, with the Automobile Association's 5.6 million members through Britain's first credit card for motorists, and a corporate cash management service for companies dealing worldwide, based on an international time-sharing network.

"There is a great determination to expand and to innovate that has percolated from senior management right through this organization," said a senior employee of the Bank of Scotland. "One of the most significant factors is that everybody, but everybody, is listened to."

The bank's governor, Thomas Risk, fiercely defends the organization's strategy against what he called the "centralizing drift" of supermarketism and the "strong pull of London." He argued that Scotland remained financially distinct and that, though "short-term financial logic and stock-market forces can always be used to make a case for concentration, such influences are often destructive of local confidence and enterprise."

This is partly in reference to the rival Royal Bank of Scotland's troubles with a seemingly endless series of takeover threats and rumors. While the Bank of Scotland looked to technology the Royal decided to amalgamate with its English banking subsidiary, William & Glyn's. This is time-consuming and possibly 10 years overdue.

Meanwhile, Royal officials have been looking over their shoulders continually since the contested takeover attempts by the Hong

Kong & Shanghai Banking Corp. and Standard Chartered Bank in 1981.

Other companies believed to be eyeing the Royal are Lloyds Bank — which owns 31 percent of the Scottish bank — Citibank, Bank of America and BAT Industries. "It's not easy to concentrate on micro-chips with a three-year crack in the neck," one analyst commented.

The amalgamation move is expected to make the new group the fifth big banking force in Britain after the merger is completed in September 1985, and to develop the muscle to stand up to the possible suitors.

The Royal has been looking for a U.S. partner to help it as well, but after two years it still has not come up with a name. The bank's top men hope U.S. deregulation might encourage some smaller U.S. banks to band together and seek European partners to protect themselves from the big New York banks.

The smallest of the Scottish clearing banks, the Clydesdale Bank, can relax from the distractions of takeover: It is part of the London-based Midland Group and has been doing a lot of pioneering of point-of-sale banking, becoming a leader in British supermarket and point-of-sale outlets.

It sees its strength as being inextricably linked to its diminutive stature, and it can boast one of the fastest information structures in British banking: Every teller is on line to the bank's main computer.

But Scottish banking has a little more to offer than technology. In May a distinctly old-fashioned-looking company arrived, the first Scottish company to be established offering retail banking services for 140 years: Adam & Co. of Edinburgh.

Backed by 700 investors, it cannot call itself a bank. Named after Adam Smith, the father of economics, it claims to offer "an atmosphere of comfort, courtesy and personalized service, which might be old-fashioned but which is coming back into service."

Critics retort that all this is the frilly border of banking, based on snobbery and out of step with the modern Scottish scene. But with the big British banks getting bigger and becoming more of a direct threat, perhaps no idea, however silly-seeming, should be left untried.

After all, the Bank of Scotland was the first financial company to install something that was considered remarkably silly at the time: the telephone.



British Telecom's private videoconferencing brings businessmen face-to-face.

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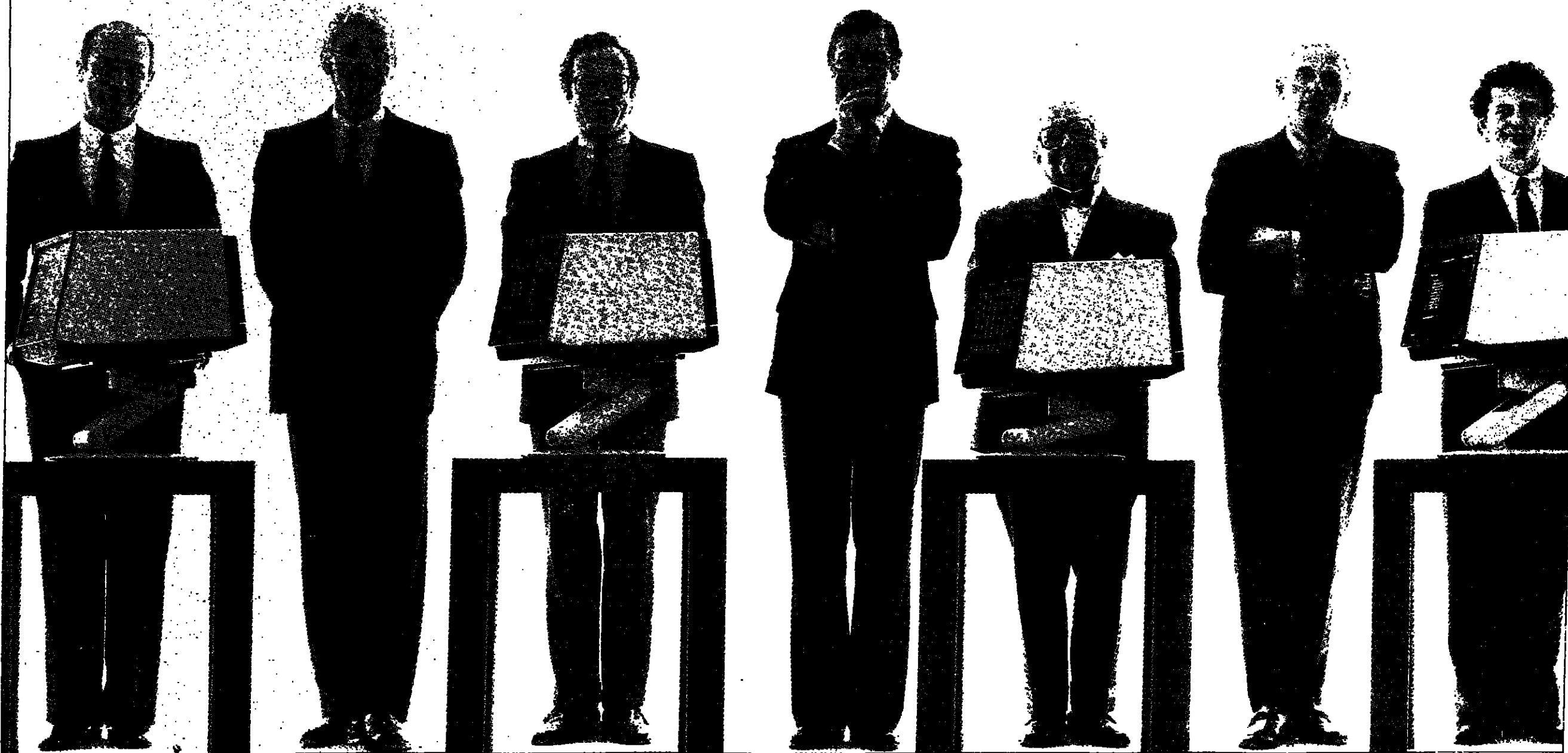
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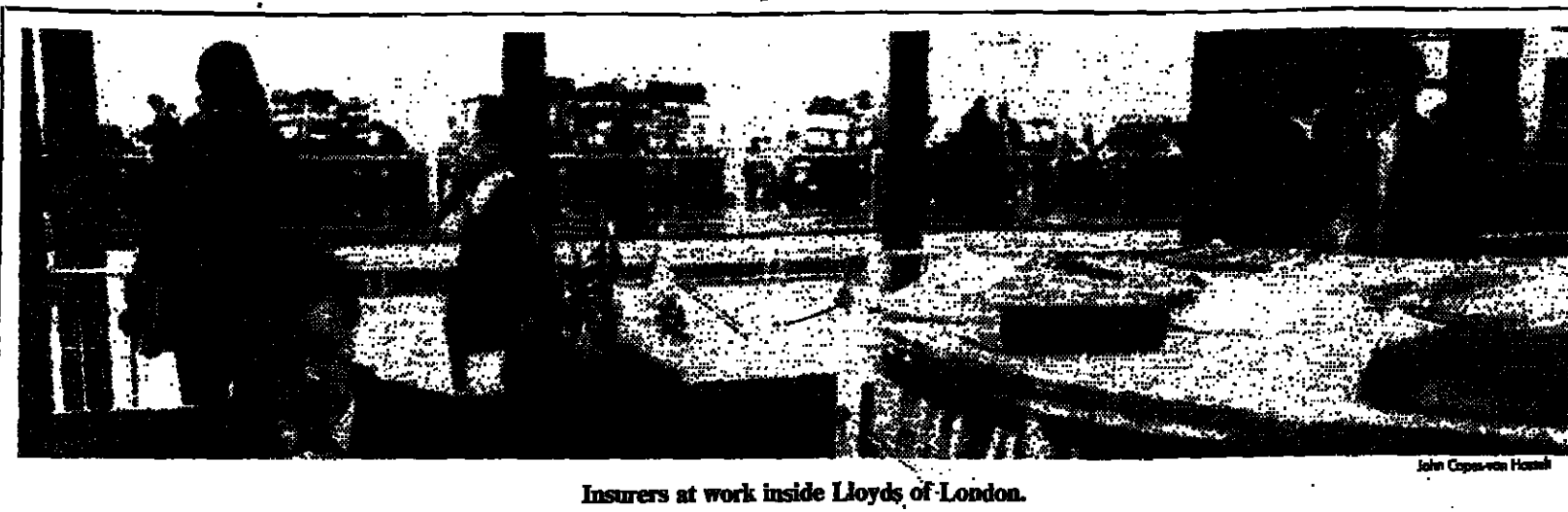
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BANKING AND FINANCE IN BRITAIN



Insurers at work inside Lloyd's of London.

The Business Degree vs. 'Determined Amateurs'

By Keith H. Hammonds
LONDON — Twenty years ago an MBA — a master's degree in business administration — was an unknown commodity in Britain. Long frowned on by Britons who fancied themselves "determined amateurs," as one educator put it, graduate-level management education has come relatively recently to the British business world.

Even now, as U.S. business schools churn out 60,000 MBAs a year, British management education is far from established — or accepted — in academic or business circles. Only a handful of universities offer business courses, producing, by the most generous of estimates, 1,500 master's graduates a year, many of them students from Europe or the United States, where an MBA has a higher value.

Most British educators and businessmen indicate that management education here is still struggling to attain the legitimacy attached to MBA programs in other countries.

"One of the failings of our system is the belief that management isn't something you have to be taught, that you learn it by the seat of your pants — something in which the American, Japanese and Germans have proven us wrong," observed Michael Brandon-Bravo, assistant provost of the City of London Polytechnic, one of Britain's largest centers of undergraduate business training. "Management education here is well behind almost everywhere in the world."

The MBA must overcome deep-seated resistance at several levels. Among academics, notes Professor Keith Thurley of the London

School of Economics, "the quality of business studies has been seen as very doubtful. There are many who see business studies as really quite boring, and applicants as lower-quality people who are not proper academics."

More important is a general distrust of management schools and their graduates by the British business establishment. Informal systems of apprenticeship and working one's way up from the bottom are widely cherished practices, and many firms in the City of London prefer an Oxbridge graduate untrained in management practices to the postgraduate with formal business education. A spokesman for Barclays Bank argued the case of many employers: "Someone coming along with a degree doesn't really give them a right to a job, does it?"

At the same time, employers seem to question both the scope and the quality of Britain's management education, in which course work ranges from 10 months to two years. "In terms of MBA programs, I believe too much of what they're doing is a sort of warmed-over American practice," said John Egan, chief operating officer of Jaguar Cars and one of the first graduates of the London Business School. "There are some absolutely real basics of our industry that they largely ignore."

But some experts see real progress in Britain's business schools. The London and Manchester Business Schools are cited most often for attracting students and faculty of increasingly higher quality. A survey by the Manchester Business School of its 1973 graduates found

that 44 percent held senior management positions in their companies and 47 percent sat on corporate boards. The Cranfield School of Management, said to be the most demanding British program, is often compared with Sloan School of Management because of its connections with the Cranfield Institute of Technology. But its educational approach is actually closer to Harvard's, with case studies dominating the teaching.

Separately, undergraduate business programs at Britain's 60-odd polytechnic institutes have witnessed a dramatic surge in popularity over the last decade, and short executive courses at universities are gaining more attention, and funding, from corporations. Brian Griffiths, dean of the City University Business School, credits Margaret Thatcher's conservative government with cultivating private enterprise and thus an environment more receptive to business education.

Even Oxford University, traditionally a center of anti-business sentiment, has discovered management education. The Oxford Centre for Management Studies, an autonomous institution, grants a master's of philosophy through the university; this autumn, through a \$4.6-million gift from the American financier John Templeton, the center will become a college in its own right, with 15 to 20 students.

In the end, what British business schools may need most is to dis-

associate themselves from the American business schools after which most were modeled (most British schools still require applicants to take the American Graduate Management Aptitude Test, even though, one expert observed, "Europeans find it impossible"). A survey by the London Business School found that businessmen rated the executive education courses at the London and Manchester schools relatively highly — but rated the Harvard Business School much higher. "The hard fact," said Professor Thurley of the London School of Economics, "is that if you produce a local version, it never has the prestige of a Harvard or a Stanford."

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2 Top Schools: Mixed Verdict

LONDON — The London Business School and its sister institution, the Manchester Business School, are generally regarded as the top management schools in Britain. Some say they rival the top U.S. schools, but many more say they have a long way to go.

Both were founded in 1965 after a report by the British Institute of Management cited an urgent need for two "centers of excellence" in management education. Two decades later, they are the best-established schools in Britain, yet even the London school is not accredited to offer a degree; it grants a master of science degree through the University of London.

From the start, the London Business School was modeled in style on Harvard's case-study approach. Though administrators are quick to play down the association now, case study still accounts for about 60 percent of classroom time. The course is rigorous and, at two years, more American in structure than the typical one-year British program. "We like to think we're a bit more serious," said Murray Cabot, the school's director of marketing.

In other ways as well, London's students resemble the typical American MBA. The average entrance age is 27, and about half the first-year class members have four years of work experience. Increasing numbers of graduates (40 percent in 1983) have gone into fi-

nance-related fields in recent years, with 23 percent starting in marketing and 15 percent in consulting. The average starting salary was about \$23,000 — far lower than the pay offered graduates of top U.S. schools.

The London school is internationally oriented, in the belief, Mr. Cabot said, that, "as business becomes more international, if we were to concentrate on British business law it wouldn't be too relevant to someone being sent off to Namibia or the U.S." Foreign students accounted for a quarter of the 1983 graduating class, and one of three students typically spends an exchange term at a foreign school.

— KEITH H. HAMMONDS

London's Financial Standing At Stake in City's Revolution

(Continued From Page 7)

term government securities but are excluded from the stock exchange's market in longer-term government securities, or gilts.

This fragmented approach has its advantages. A brokerage recommending the purchase of a certain share cannot be suspected of trying to unload an uncomfortable accumulation in its inventory, since only jobbers carry such inventories.

Some British firms also argue that the "single-capacity" system — separating the roles of jobber and broker — creates a more liquid market in the lesser-traded shares. Nonetheless, the pressure for change has become overwhelming.

Much of the pressure came from institutional investors — mainly pension funds and insurers — that insisted the stock exchange was keeping commissions on gilts intolerably high.

Once the exchange agreed to end minimum commissions, the entire trading system splintered into doubt. As commissions fell and pinch brokers' profits, the conventional wisdom runs, brokers will insist on acting as market makers, grabbing the trading profits now reserved for jobbers. Jobbers will react by insisting on the right to sell directly to the public. Single capacity thus appears almost certain to give way to a new system.

Computer technology adds further pressure. Many financial products — notably currencies, commodities and international bonds — are already traded over the phone or computer screen rather than on the floor of an exchange.

Unless London opens up its stock exchange to big foreign firms, these firms will probably find more ways to trade the most appealing British shares outside the exchange. Already, there are signs of leakage: More than 15 percent of Imperial Chemical Industries PLC and Glaxo Holdings PLC are traded away from the exchange in the form of American depository receipts, certificates that represent shares held in the vault of a U.S. bank.

Equally, the peculiarities of the traditional British system restrained many British brokerages that wanted to become major players overseas. They lacked the requisite size and mix of talents.

"We must not allow ourselves to be misled into thinking that it is possible to play rugby at home and soccer away," Mr. Leigh-Pemberton said in a speech last month.

Many of the more alert firms in

London's financial world always have pursued international business. "Neither the U.S. nor Japan is ever going to take the rest of the world that seriously," says James Fergusson, a partner at the brokerage James Capel & Co. But the British stock market is much smaller. "The luxury of our own market is not open to us," Mr. Fergusson says.

To compete more effectively overseas, London brokerages and banks also need more capital. Few London brokerages have more than the equivalent of \$10 million or \$20 million. Merrill Lynch has total capital and reserves of about \$2 billion.

Capital matters because of the huge risks involved in trading big blocks of shares. It also is essential for modern methods of managing new issues of securities.

In the old days, before agreeing on a price, the bank leading an issue normally spent weeks assembling a syndicate of other banks and institutional investors to share the risk of finding buyers. Increasingly, the lead manager agrees on a price and single-handedly buys hundreds of millions of dollars of bonds from the borrower. If market conditions change suddenly before the issue can be sold to investors, the lead manager can be stuck with a thumping loss.

Banks unable or unwilling to take such risks are finding it harder to compete for new issues. Corporate borrowers are becoming more apt to choose the bank that can handle the big transaction quickly and cheaply instead of the bank they have always used. "Issuers nowadays are becoming promiscuous" in their choice of bankers, quips Win Bischoff, chairman of the merchant bank of J. Henry Schroder Wegg & Co.

As evinced by Mr. Jenkins's lament, though, the jolting changes are producing a backlash. Seventy-eight small to mid-sized brokerages and jobbers recently formed a steering committee to apply pressure to the stock exchange council.

These and other critics say proposed changes are being devised too hastily and that investors will be inadequately protected. In particular, the critics say the big firms that are expected to dominate under the new system will be less inclined to make markets in second- and third-line stocks.

"They wouldn't want to trade some of the rubbish I deal in," muttered one jobber.

The dissenters may delay some

changes and win concessions, but the big brokers and merchant banks seem determined to allow in new capital and the single-capacity system, at least for the most actively traded shares.

"You have to go with the changes and lead them rather than put your head in the sand," says Greenwell's Mr. Poppel.

Reflecting that belief, 13 major stock exchange member firms — including all of the five biggest jobbers — have already sold stakes to outsiders. The outsiders, mostly banks, are limited to holding 29.5 percent of a member firm, but that ceiling is expected to be raised or abolished as member firms feel the need for more capital.

Discount houses and some foreign securities firms are preparing to trade gilts, a market formerly dominated by two jobbers. The bigger British merchant banks are gearing up to do what Wall Street investment banks do: trade securities on a large scale.

Indeed, the U.S.-style investment bank, as exemplified by Goldman, Sachs & Co. and Salomon Brothers Inc., is often touted as the new model for the more aggressive British brokers and merchant banks. That model would lead them to "integrate" into one streamlined firm the formerly separate functions of trading, research, sales, underwriting and advising.

At the same time, some British firms are expected to remain specialists, as have some Wall Street firms. There is always a place for such "boutiques," says Shearson's Mr. Gullett, but they "have to be slim and awfully good."

While they acknowledge the need to build up more capital, many leading City firms say they do not need to match Salomon or Merrill Lynch in that respect to compete internationally.

And, while the British market is expected to more closely resemble New York, the British seem unlikely to toss out all their bowler hats and genteel traditions.

"It's just a different culture," notes John Hyde, chairman of the merchant bank Charterhouse. "As Salomon in New York, the chief executive maintains his office amidst the hurly-burly of the trading floor. London merchant banks probably will not feel compelled to go quite so far in demonstrating their devotion to trading. I don't know many merchant bankers who want to take off their jackets and shout stock prices down a phone," Mr. Hyde says.

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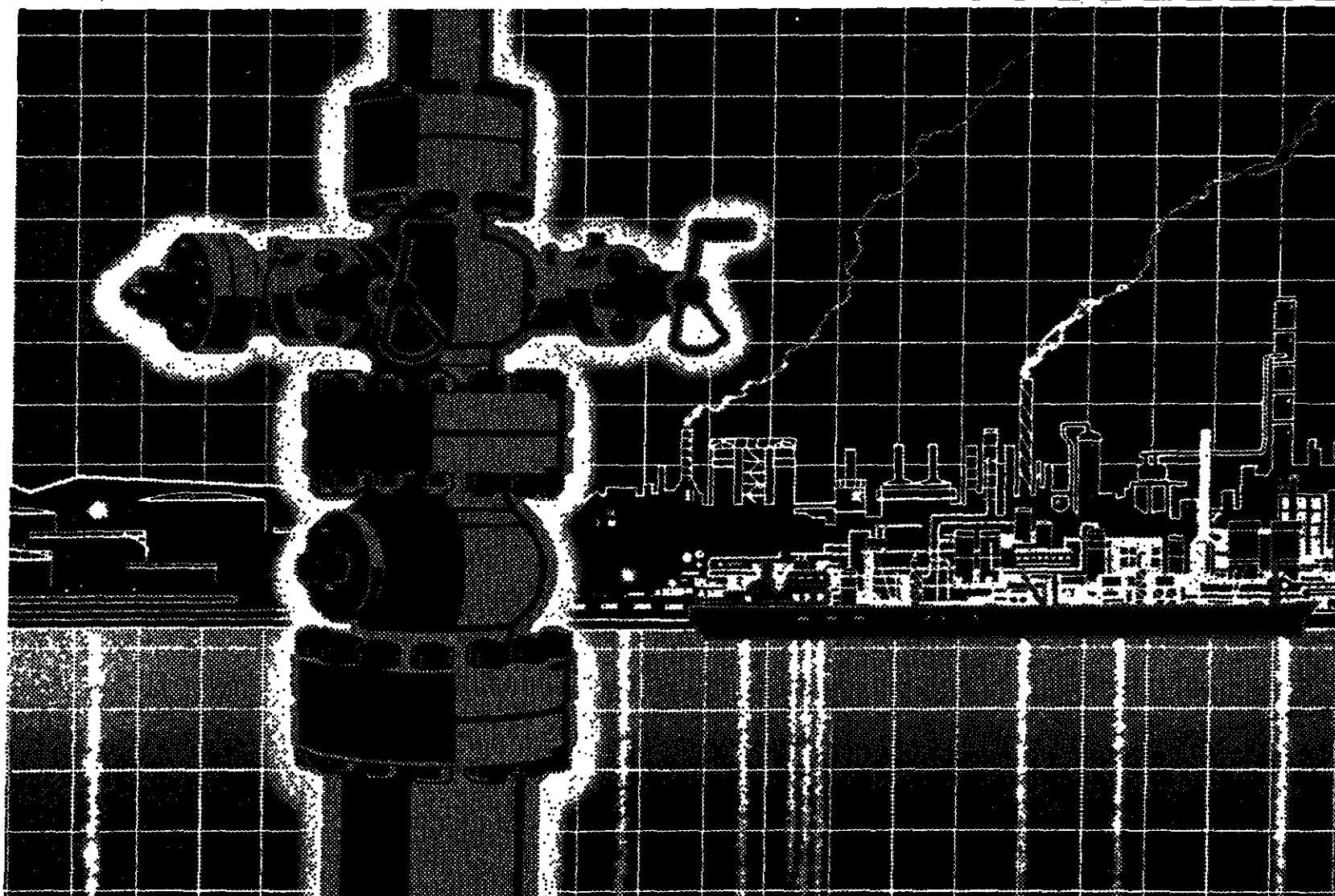
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EUROBONDS

New Issues Flood Market But Don't Find Many Buyers

By CARL GEWIRTZ
International Herald Tribune

PARIS — New issues cascaded into the Eurobond market last week, giving casual observers the erroneous impression that business was booming. But the paper offered found few takers and prices suffered as a result.

The bulk of the fixed-coupon dollar bonds were swaps, either into floating-rate debt at a cost below the London interbank offered rate or into foreign currencies at exchange rates that were compellingly attractive. Thus, the driving force behind the activity was the desire to complete a swap rather than concern about whether there was any demand for fixed-rate paper.

Basically, there is little — if any — investor demand, market participants admit. The real customers are on the sidelines, waiting some clearer view of where interest rates are headed.

But bond dealers, ever on the lookout for a quick trade, convinced themselves early in the week that the rise in rates had topped, or at least temporarily paused, and rushed to pick up what high-yielding paper could be found.

Inventory positions had generally been run down during May, so dealers had room to add to their holdings. In addition, the current yield curve of interest rates makes position taking look attractive. With the cost of overnight money below 11 percent, dealers can borrow relatively cheaply to finance holding paper yielding 14 percent and pocket the difference.

Speculators jumped on to this bandwagon of rising bond prices and by midweek euphoria was spreading throughout the market. But a renewed uptick in short-term interest rates in New York sent prices skidding there and in the Eurobond market. These declines were only partially erased Friday in the wake of an unexpectedly large decline in the U.S. money supply.

The essential point to be learned from all this is that this is a trader's market, with professionals rushing in and out as the tea leaves change. This instability will continue until investors are drawn back into the market by evidence that rates have reached a plateau or are set to decline.

The market, said one analyst, "is driven by statistics watchers." A favorable report on a decline in the U.S. money supply will send them rushing to buy bonds and a drop in the unemployment rate will send them fleeing. Behind this frenetic activity is the constant reassessment of where the Federal Reserve wants dollar interest rates to be.

Part of last week's early boom was fueled by expectations that the Fed, constrained by its ability to service its bank debt, would cut its discount rate. But the rise late in the week in overnight money costs signaling new tightness by the Fed killed that rumor.

This week, statistics watchers will have the latest index numbers on retail sales, wholesale prices and industrial production to digest for clues about the state of the economy and economic growth and the likely Fed response.

All that said, some issues offered last week fared better than the week average.

The best received was the Industrial Bank of Japan's \$125 million of seven-year notes offered at par bearing a coupon of

(Continued on Page 17, Col. 5)

4 Convicted In U.S. in Tax Case

The Associated Press

NEW YORK — Four Wall Street executives have been found guilty of conspiring to defraud the Internal Revenue Service in a case that allegedly involved \$130 million in unjustified tax deductions.

Prosecutors said it was the largest tax fraud case in U.S. history. A U.S. District Court jury reached guilty verdicts Friday on 15 counts but did not decide on 49 additional charges, including all the charges against a fifth defendant, Judge Richard Owen told the jurors to resume deliberations Monday.

Federal prosecutors said the defendants had created a risk-free tax haven by selling securities that existed only on paper.

Their customers, who were not accused of wrongdoing, included Norman Lear, the producer; Sidney Poitier, the actor; Henry Mancini, the composer; and a number of other prominent figures.

Defense lawyers contended that the defendants' firms, Sentinel Government Securities and Sentinel Financial Instruments, were merely taking advantage of a loophole in the tax laws.

The five executives all were charged with conspiring to defraud the Internal Revenue Service. Four of them, Michael Senti, 44, of New York, his brother, David Senti, 40, also of New York; Joseph Antonucci, 31, of Irvine, California; and Walter Orchard, 33, of Somers, New York, were found guilty of the conspiracy charge.

Mr. Orchard also was found guilty of assisting the filing of false returns.

The jury did not reach verdicts on the charges against Frank Senti, 32, of Stamford, Connecticut, who was charged with aiding the filing of a false investors' tax return.

Jurors were asked to decide whether the securities trading had in fact taken place. Prosecutors said it had not, and that it was a game that was intended to deceive the IRS. But defense lawyers said the trades were real and had securities experts testify in support of that position.

Sentinel said it was making its tax deductions based on long- and short-term positions. This strategy, called a "straddle," seeks to produce tax losses on securities, then taking tax deductions on them, while pushing taxable gains into later years.

They said the procedure was legal because the government securities market is largely unregulated.

Liberia Squeezed by Economic Woes

By Clifford May
New York Times Service

MONROVIA, Liberia — In 1822 an American expedition arrived on the west coast of Africa and, for the price of six muskets, one cask of gun powder, a box of beads, three pairs of shoes, a barrel of rum and other considerations, purchased a piece of land that would become Liberia, the continent's first independent republic.

Now, the United States is again trying to encourage the formation of a republican government in Liberia. This time, however, the cost is somewhat higher: Washington's aid budget for Liberia is set at \$77 million in the 1984 fiscal year, more on a per-capita basis than it provides to any other nation in black Africa. And for fiscal 1985, \$91.7 million has been requested.

"The Americans are spending a fortune trying to make Liberia a showcase," said one senior European diplomat. "I don't envy them the task."

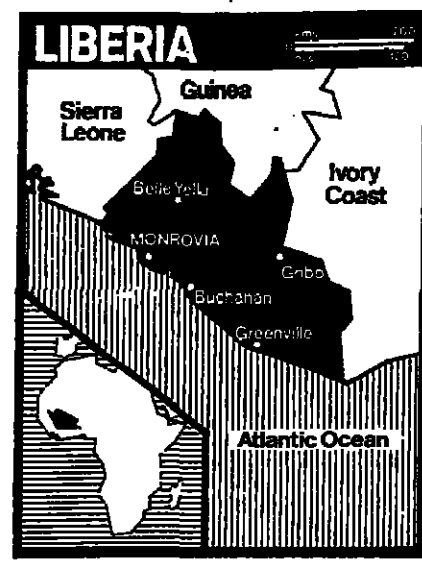
Liberia is unique in Africa in that it was founded by freed American slaves, largely financed by President James Monroe, after whom the nation's capital was named.

It has remained a nation that in many ways is more American than African. For much of the 20th century, Firestone Tire & Rubber Co. was the dominant economic force in Liberia, maintaining one of the largest rubber plantations in the world.

During the 1960s, Liberia's economy grew at a brisk rate of 8 percent or better, but the world recession in the next decade struck a painful blow, leading to rising prices and the social and political unrest that culminated in a bloody 1980 coup by Master Sergeant Samuel K. Doe and other non-commissioned officers.

Ruling with a heavy hand, Mr. Doe tried to get the country back on its feet. But it soon became obvious that outside help was needed. Responding to offers of aid from Libya and the Soviet Union, the United States moved in with its own massive assistance program, including more than \$40 million so far devoted to the construction of new housing for Liberia's 6,000-man army.

"It's a basic rule in Africa," said a Western diplomat, "if you want the soldiers to return to the



barracks you'd better have some decent barracks for them to return to."

Still, the military is one of the few sectors of the economy to benefit from Mr. Doe's takeover. The 1980 coup raised economic expectations that the Doe regime has had little success in meeting.

Soon after taking power, the new head of state doubled the salary of all soldiers and civil servants and expanded the number of public employees from 28,000 to 44,000. Taking such measures at a time when foreign debt stood at \$800 million and demand for iron ore, Liberia's chief export, was declining made further deterioration inevitable, economists here say.

Before long, the economy was contracting at about 5 percent a year. Although the civil service has since been trimmed and salaries cut, virtually all of Liberia's \$375-million annual budget now goes for recurrent expenditures with practically nothing left over for development. The country's

(Continued on Page 15, Col. 6)

Airlines Follow People Express In Cutting Fares

By Robert E. Dallos
Los Angeles Times Service

NEW YORK — Several U.S. airlines have decided to cut their coast-to-coast fares to compete with those that People Express Airlines plans to offer beginning this week.

In addition, the new transcontinental fare competition started by People Express, with its new \$119 one-way fare between Los Angeles and Newark, New Jersey, spread to Kennedy International Airport near New York.

Trans World Airlines, American Airlines and World Airways all said Friday that they will offer fares that are competitive with People Express's in one form or another. United Airlines did so Thursday, immediately after People Express announced its fare. TWA, American and United said they will offer the new low fares on certain flights into and out of Kennedy airport.

But even though the low fares between the New York metropolitan area and Los Angeles spread quickly, most airline officials and analysts said that they do not believe that a fare war has erupted.

"This is a competitive action," said Lowell Duncan, vice president of public relations for American. The airlines maintain that while the fares have been matched on some flights, restrictions on length of stay and advance purchase of tickets continue to apply on fares except those of People Express and World Airways.

The analysts also predicted that the fare-cutting will not hurt the airlines financially during the usually busy summer tourist season. The real repercussions could be felt in the fall and winter, when traffic normally falls off.

The summer does not make that much difference," said Hans J. Plickert, first vice president of E.F. Hutton & Co. "But no one knows the ingredients for the lowering of the fare structure after the summer, and if that does occur it will [cut] profits of the big carriers."

The fare-cutting began after People Express made its long-expected decision to begin transcontinental service. It presently flies from Newark to London for \$159 one-way, and serves a number of cities in the East and Midwest.

Effective Saturday, American will cut its "supersaver" nonstop transcontinental fares between Newark and Kennedy airports and Los Angeles to \$298 round-trip, with a 14-day advance purchase and seven-day minimum and 21-day maximum stay.

American's "easysaver" fare will be cut to \$328 round-trip with a seven-day advance purchase and seven-day minimum stay.

TWA's fares will be \$119 one-way, with the same restrictions as American. The fare will be \$149 with a seven-day advance purchase and a requirement that the traveler remain at the destination over a Saturday night.

TWA said the new fares will apply only to one westbound and two eastbound flights daily. These flights carry mostly domestic passengers.

Its other flights are typically filled with travelers connecting or continuing from flights abroad. The transcontinental portion of their ticket is already greatly discounted, the carrier said.

World Airways reduced its fares on the Los Angeles-to-New York night flight to \$119 and all others in both directions to \$149.

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U.S. News Buyer Reportedly Found

By Peter W. Barnes
New York Times Service

NEW YORK — The directors of U.S. News & World Report Inc. have approved the sale of the company to Mortimer B. Zuckerman, a Boston real estate developer who owns The Atlantic magazine, according to a source close to the transaction.

Barring any last-minute complications, Mr. Zuckerman is expected to announce on Monday his purchase of the company, which publishes U.S. News & World Report. The source, who asked to remain anonymous, estimated Friday that Mr. Zuckerman's bid was \$150 million to \$200 million.

James H. McIlhenny, president of U.S. News, would neither confirm nor deny the report of the sale. A spokesman for Mr. Zuck-

man said he was in meetings Friday and was not available for comment. The spokesman said Mr. Zuckerman had received "no formal word" from U.S. News.

U.S. News & World Report, with a paid circulation of 2.1 million as of Dec. 31, is the third-largest weekly news magazine in the United States, behind Time and Newsweek.

The parent company also owns Publishers Services International, a typesetting company, and half of a valuable 3.5-acre (1.4-hectare) Washington real estate development in a joint venture with Mr. Zuckerman.

Magazine industry officials said Mr. Zuckerman was the "logical choice" for taking the helm of U.S. News in light of his real estate background and his lengthy business partnership with the company.

The magazine has been more successful editorially than commercially. According to the Publishers Information Bureau, the magazine's advertising revenue grew from \$83.8 million in 1982 to \$93.9 million last year, ranking it 13th among all magazines.

However, the publication is said to post operating profits that are far below 20 percent of sales, the industry's standard.

Investors Search for Direction of the Fed's Policy

By Michael Quint
New York Times Service

NEW YORK — Interest rates were mixed Friday, with only small increases for most securities due in less than a year, and small declines for longer-term notes and bonds.

The uneven pattern comes at a time when investors and traders are unsure about the near-term direction of Fed policy, and waiting for

U.S. CREDIT MARKETS

more information about the economy's performance during the second quarter. The course of the economy and Fed policy are closely related, and economists expect that continued rapid economic growth would encourage the central bank to allow, or even to encourage, higher interest rates. Eventually, it is hoped, higher rates would slow the pace of the economic expansion to a sustainable rate of about 4 percent.

To gauge the Fed's posture, many analysts are watching the overnight rate for bank loans in the federal funds market, which averaged about 10 1/4 percent Friday, down from about 11 percent Thursday. Some analysts point to recent increases in the overnight loan rate — to an average of 10.72 percent in the week ended June 6

from 10.3 percent in the May 31 week and 9.75 percent May 23 — as evidence that the Fed is encouraging higher rates.

Others, however, said the overnight rate is volatile and easily influenced by short-lived technical factors. They note that the overnight rate averaged over 11 percent May 8 through May 10 before declining later in the month.

"I don't think you can infer from the recent funds rate behavior that the Fed has tightened policy," said Elliott Platt, money-market economist at Donaldson, Lufkin & Jenrette Securities.

While economists are not sure

the average rate for federal funds loans will emerge at 10 1/4, or 11 percent, recent increases have been enough to put upward pressure on other short-term rates. The rate for three-month Treasury bills, for example, rose to 9.88 percent from 9.83 percent and the six-month bill rate rose by a slightly larger amount to 10.53 percent.

Strong growth in business demands for short-term loans has been a widely cited reason for rising interest rates. While loan demand at banks and sales of commercial paper have been robust this year, the latest weekly data compiled by the Fed showed declines in

U.S. Consumer Rates

For Week Ended June 8	
Passbook Savings	5.50 %
Tax-Exempt Bonds	10.75 %
Bond Buyer 20-Bond Index	10.75 %
Money Market Funds	9.74 %
Cash Money Market Accounts	9.74 %
Bank Rate Monitor Index	9.34 %
Home Mortgages	14.34 %
FHLS Overlap	14.34 %

both categories. The Fed announced Friday that business loans outstanding at large banks across the United States fell by \$1 billion, to \$235.95 billion.

Southland Convicted of Conspiracy

By Joseph P. Fried
New York Times Service

NEW YORK — Southland Corp., one of the largest retailers in the United States, has been found guilty of criminal conspiracy stemming from what the government said was a plan to bribe New York state officials to fix sales tax cases.

The sales tax cases involved the 7-Eleven convenience store chain, which Southland runs. No bribes were actually paid, but Justice De-

partment prosecutors said that illicit planning to arrange the payoffs took place in the "unbridled pursuit of profit" and included the establishment in 1977 of a \$20,000 bribery "slush fund."

In a second key aspect of the conspiracy, the prosecutors said, the defendants later sought to "defraud the United States" by falsely claiming that nearly \$100,000 paid out by Southland to facilitate the state bribery plan had been a legal-services fee deductible as a business expense on Southland's federal income-tax return.

In the verdict, reached Friday night, a second defendant, Eugene F. Mastroianni, a former New York City councilman from Queens, was also convicted of the criminal conspiracy charge after a monthlong trial in Federal District Court in Brooklyn. The prosecution said he

was to have been the "conduit" for paying the bribes.

In addition to being asked whether it had found the defendants guilty or not guilty of the basic conspiracy charge, the jury was also asked which of the two subplots in the overall conspiracy it found each defendant guilty of — the plan to bribe the state tax officials, or the one to defraud the United States by falsely stating the nature of the money that the prosecution said Southland paid out in the bribery plan.

The jury said it found Mr. Mastroianni guilty of both but had found Southland guilty only of the one to defraud the United States.

Mr. Mastroianni, 46, faces up to five years in prison and a fine of up to \$10,000 when sentenced July 27. Southland faces a fine of up to \$10,000.

Brazil Threatens to 'Dump' Sugar, Leave World Group

The Associated Press

BRASILIA — Brazil will "dump" sugar on the world market and drop out of the International Sugar Organization if other producers continue their "subsidized" export quotas under the international agreement.

Brazil, the world's largest cane-sugar grower and a major exporter, with a current export quota of 2.8 million tons, opposes a significant reduction in its global market share. The financially strapped nation depends heavily on exports to keep afloat economically.

Sugar currently sells on the international market for around 6 U.S. cents a pound, nearly a historic low.

market in a continuing slump, and the press here has reported that the European Community and Australia plan to demand sharply increased export quotas under the international agreement.

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Sugar currently sells on the international market for around 6 U.S. cents a pound, nearly a historic low.

CURRENCY RATES

Official fixings for Amsterdam, Brussels, Milan, Paris, New York rates of 4:00 pm EDT.

	\$	DM	FF	£	Yen	Sfr	Yen
Amsterdam	2.365	12.79	36.65	0.63	163.14	133.15	
Brussels	35.34	12.79	36.65	0.63	163.14	133.15	
Frankfurt	2.365	12.79	36.65	0.63	163.14	133.15	
London	1.93	12.79	36.65	0.63	163.14	133.15	
Madrid	1.67158	12.79	36.65	0.63	163.14	133.15	
Norway	1.395	12.79	36.65	0.63	163.14	133.15	
Paris	6.5655	12.79	36.65	0.63	163.14	133.15	
Tokyo	251.28	12.79	36.65	0.63	163.14	133.15	
Zurich	2.365	12.79	36.65	0.63	163.14	133.15	
1 ECU	0.2279	12.79	36.65	0.63	163.14	133.15	
1 SDR	1.6459	12.79	36.65	0.63	163.14	133.15	

Dollar Values

	\$	DM	FF	£	Yen	Sfr	Yen
Canada	1.315	12.79	36.65	0.63	163.14	133.15	
Denmark	1.138	12.79	36.65	0.63	163.14	133.15	
France	6.5655	12.79	36.65	0.63	163.14	133.15	
Germany	1.93	12.79	36.65	0.63	163.14	133.15	
Greece	1.395	12.79	36.65	0.63	163.14	133.15	
Holland	2.365	12.79	36.65	0.63	163.14	133.15	
Italy	1.360	12.79	36.65	0.63	163.14	133.15	
Japan	1.93	12.79	36.65	0.63	163.14	133.15	
South Africa	1.360	12.79	36.65	0.63	163.14	133.15	
Sweden	1.360	12.79	36.65	0.63	163.14	133.15	
Switzerland	1.360	12.79	36.65	0.63	163.14	133.15	
U.K.	1.93	12.79	36.65	0.63	163.14	133.15	
U.S.	1.00	12.79	36.65	0.63	163.14	133.15	
West Germany	1.93	12.79	36.65	0.63	163.14	133.15	
Yugoslavia	1.360	12.79	36.65	0.63	163.14	133.15	

(a) Commercial rates (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (d) Units of 100 (e) Units of 1,000 (f) Units of 10,000 (g) not quoted; N.A. not available.

Market Closings

Financial markets in Australia, West Germany, France, Belgium, Hong Kong, Luxembourg, the Netherlands, Switzerland, Sweden, Norway and Denmark are to be closed Monday for a holiday.

Provided by White Weld Securities, London, Tel.: 623-1277; a Division of Financière Crédit Suisse-First Boston
Prices may vary according to market conditions and other factors.

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




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INTERNA

Walt Disney Is Likely to Be Split Up If Reliance-Kerkorian Bid Succeeds

By Kathryn Harris

Los Angeles Times Service

BURBANK, California — Saul Steinberg, the New York financier, has enlisted the help of Kirk Kerkorian and other wealthy investors to make a bid for the Walt Disney Productions entertainment empire, which could be valued at as much as \$2.75 billion.

If the Steinberg group succeeds, the Disney empire is likely to be split up, with its movie company being sold to Mr. Kerkorian and its

valuable California and Florida real estate going to other investors in the group, according to filings with the Securities and Exchange Commission.

Mr. Steinberg, who has been threatening to mount an unfriendly acquisition attempt for two weeks, gave management of Burbank-based Disney the option of trying to defeat a hostile tender offer for 49 percent of the company's stock or accepting a more generous offer for the entire company.

The Steinberg group said it is

prepared to begin a tender offer at \$67.50 a share for 49 percent of the Disney shares but is willing to pay \$72.50 a share for all the stock, which would amount to \$2.75 billion, if Disney's directors accept the offer and drop a plan announced earlier this week to merge with a greeting card company.

Mr. Steinberg said the plan, the Steinberg group has formed a new company called MM Acquisition Corp., borrowing the initials of Mickey Mouse, Disney's best-known cartoon character.

Mr. Kerkorian, the 67-year-old financier who owns slightly more than half of Culver City-based MGM/UA Entertainment Co., has agreed to invest \$75 million for a 20-percent stake in MM Acquisition and in return has obtained a 60-day option to buy the Disney studio and film library for \$447.5 million if the takeover is successful.

Mr. Kerkorian has made the agreement through Trancina Corp., his private Los Angeles-based investment firm, and through MGM.

Fisher Financial & Development Co., a major development firm in New York, has also agreed to invest \$75 million for a 20-percent stake in exchange for exclusive rights to acquire the undeveloped real estate at Walt Disney World in Florida and Disneyland in Anaheim, California. No price has been negotiated, according to one source familiar with the agreement.

Ownership of the two amusement parks would be retained by MM Acquisition, however.

A Disney official said late Friday that the company would have no comment until the offer had been reviewed.

So far, Reliance has spent \$265.6 million to acquire 4.2 million shares, or 12.2 percent of the company's stock. The stake has been diluted to 11.1 percent, however, by Disney's issuance of 2.3 million new shares this week to develop

Avrida Corp., a Florida land development company.

In a few more weeks, the Reliance stake could be further diluted to between 9.5 percent and 9.9 percent if Disney completes its planned acquisition of Cincinnati-based Gibson Greetings Inc., the third-largest producer of greeting cards and gift wrap in the United States.

Braniff Posts \$30.6-Million Quarterly Loss

The Associated Press

DALLAS — Braniff Inc., the successor to the failed Braniff International, has reported a loss of \$30.6 million in the first quarter.

An industry analyst said the loss was "not unexpected," and Braniff's vice chairman, Patrick Foley, said the carrier's performance would improve this summer.

Braniff International, which had a \$1-billion debt, suspended operations in May 1982. It reorganized and resumed service on March 1 as a scaled-down airline with 30 planes and an \$80-million infusion from Hyatt Corp.

The new Braniff posted revenues during the period of Feb. 1 to April 30 of \$29.8 million, a spokesman said Friday. During Braniff's first two months of operation, beginning at the end of February, it had a load factor of 24.1 percent. Load factor is the percentage of seats filled by paying customers.

Braniff said its operating costs for the period, 6.27 cents per available seat-mile, meant that 51.8 percent of its seats would have to be filled for the airline to break even.

The airline flew 231.1 million revenue passenger miles. That figure is the number of miles flown by the total of paying passengers.

Mr. Foley said that May and June figures would be better.

"The May load factor will show approximately a 50-percent increase over March and April and advance bookings for June indicate another 50-percent increase in load factor," said Mr. Foley.

Dan Weaver, who follows the industry for the Dallas investment firm of Rauscher Pierce Refines, said analysts had expected significant losses in Braniff's first quarter.

He said the costs-per-mile figure indicated that Braniff, which negotiated wage concessions from the 2,000 employees who returned to the resurrected airline, "is indeed a low-cost carrier."

He also said that experts are watching Braniff's marketing ability this summer. The summer season is a traditionally busy travel period, and this summer could be decisive in Braniff's comeback.

"If they don't get around 40 percent load factors this summer, then we worry about them," he said.

Denmark's Credit: Will It Be Seen as a Success?

By Carl Gewirtz

International Herald Tribune

PARIS — Denmark's controversial \$1-billion credit, intended to be an underwriting standby for use only in an emergency, will no doubt be completed despite the refusal of most major international banks to participate in it. What is less clear is whether the operation will ever be considered a success.

From the point of view of the borrower and the lead manager, Manufacturers Hanover Trust, completion of the arrangement will be its own success.

But the view in the marketplace is that the record-low annual commitment fee of 0.005 percent offered by Denmark has been shown to be an unworkable price.

Most of Denmark's traditional major lenders have refused to participate, and these bankers insist that its policy of being the sole placer of notes is not based on greed for profits but rather to control the placement to assure that a uniform price is offered in the market.

Elsewhere, the long-awaited \$420-million project loan for Pechiney's aluminum smelter in Quebec is finally being syndicated. Pechiney owns 50 percent of the project and the remainder is divided

equally between the province of Quebec and Alumar.

The operation is in two parts. The project owners are guaranteeing a loan of \$120 million, which will run for 12 years. Interest on this portion will be set at 1/2 point over the London interbank offered rate for the first three years, 3/4 point over Libor for the next three years and 1/2 point over Libor thereafter.

The second portion is a so-called limited-recourse loan, in which lenders bear the risk. Interest on this 14-year, \$300-million loan will start at 1/4 points over Libor and continue until the project is completed, which is expected to be in September 1987.

Thereafter, interest will be set at 1 point over Libor through May 1996 and 1/4 points over Libor from then until November 1998.

In fact, the project is expected to generate sufficient funds so that the entire loan will be repaid in 1996, before the uptick in the margin. Participation fees range from 1/4 percent for managers underwriting \$25 million to 0.20 percent for co-managers underwriting \$15 million and 0.15 percent for participants taking \$10 million.

In Spain, Catalonian Railways is seeking a loan of 30 million European currency units (\$249 million).

Interest on the 10-year loan will be set at 1/2 point over Libor and a commitment fee of 1/4 percent will be paid on any undrawn portion. Front-end fees range from 0.15 to 0.35 percent.

In Asia, Thailand has officially asked banks for terms on a \$300-million loan for the Electricity Generating Authority of Thailand. The proceeds are mostly expected to be used to prepay more expensive outstanding loans. The Thais are hoping for a 10-year arrangement on which interest is set at 1/4 point over Libor, but European bankers say a split 1/4-1/2 margin is more realistic.

South Korea's Daewoo is arranging a revolving credit of \$30 million to finance one- to six-month letters of credit. Interest will be set at 1/4 point over Libor and the facility will run for a maximum of 30 months. Banks will earn a commitment fee of 1/2 percent on any unused amount and a drawing fee of 1/4 percent on the first 25 percent and 1/16 percent per month for each extension.

In addition, Daewoo is seeking \$45 million for two and a half years as an addition to its working capital. Interest will be set at 1/4 point over Libor and front-end fees range from 1/4 to 1/2 percent, depending on the size of the commitment.

Liberia Squeezed by Economic Woes

(Continued from Page 13)

per-capita gross national product, over \$500 when Mr. Doe took over, stands at only about \$400 today.

GNP is a nation's total output of goods and services.

As a result, budget deficits have been running around \$100 million a year while export earnings, which peaked in 1981 at \$600 million, are down to \$475 million. Total foreign debt remains at \$800 million with debt servicing consuming about \$80 million a year.

"Between repaying its debt, trying to pay salaries and importing oil and machinery, this government is terribly squeezed," said an economist here.

Many of the problems were inherited by Mr. Doe when he took power. The country has little in the way of infrastructure, with a ratio of roads to territory that is among the lowest in Africa. Liberia's literacy rate is under 15 percent. And, according to both Western and Liberian business executives, government corruption remains pervasive.

For all that, Liberia's economic health is not as critical as many of its neighbors. It has, at least, been spared the drought that has afflicted so much of Africa. Nearly three-fourths of the population work the land, and though poverty is widespread, no one appears to be starving.

The message, one of the bankers said, is that the Bank of England expects management to be able to show supervisors that internally generated profits are adequate to build up the bank's capital base — and that would be hard to prove in the Danish situation.

While Manufacturers Hanover admits that completing the Danish credit is taking longer than

planned, spokesmen insist that it will be done. At last word, it is still \$140 million short of its goal to have underwriting commitments for \$1 billion.

Also meeting resistance is the Merrill Lynch revolving underwriting facility for Spain. Merrill Lynch aims to sell \$500 million in three- or six-month Spanish notes to its clients, and if it cannot, is seeking to organize a syndicate of banks that will serve as a taker of last resort.

The problem with this approach is that the commercial banks do not participate in the sale of the notes or the profits earned. Many therefore object to supporting an operation in which the risk-reward relations are so unbalanced.

A Merrill Lynch spokesman insists that its policy of being the sole placer of notes is not based on greed for profits but rather to control the placement to assure that a uniform price is offered in the market.

Elsewhere, the long-awaited \$420-million project loan for Pechiney's aluminum smelter in Quebec is finally being syndicated. Pechiney owns 50 percent of the project and the remainder is divided

equally between the province of Quebec and Alumar.

The operation is in two parts. The project owners are guaranteeing a loan of \$120 million, which will run for 12 years. Interest on this portion will be set at 1/2 point over the London interbank offered rate for the first three years, 3/4 point over Libor for the next three years and 1/2 point over Libor thereafter.

The second portion is a so-called limited-recourse loan, in which lenders bear the risk. Interest on this 14-year, \$300-million loan will start at 1/4 points over Libor and continue until the project is completed, which is expected to be in September 1987.

Thereafter, interest will be set at 1 point over Libor through May 1996 and 1/4 points over Libor from then until November 1998.

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In addition, Daewoo is seeking \$45 million for two and a half years as an addition to its working capital. Interest will be set at 1/4 point over Libor and front-end fees range from 1/4 to 1/2 percent, depending on the size of the commitment.

Since World War II, Liberia has used the American dollar as its currency. That has caused problems — with the dollar high Liberia's exports tend to be uncompetitive in foreign markets — but it also means, as a Finance Ministry official put it, that "you can't just print more and more money and use inflation to keep the wheels greased the way so many African countries have done."

A Western adviser to the government adds that the Doe administration has been moving "slow and by fits and starts" toward a fiscal policy more in accord with the country's resources. "Combine that with continued recovery in the West leading to a pickup in exports and the next 12 months may be better than the last 12 months," he said.

Finally, of course, there is the significant factor of United States aid, described by one diplomat as "energy to push Liberia through the transition" to constitutional, civilian rule and begin a process of development.

"The situation should improve," said one economist. "But as for making Liberia into a showcase, a sort of African Singapore or Taiwan, that would be raising hopes too high. A modest success is what this country should be looking for at this stage of the game."

Mr. Doe has promised to restore civilian rule by the fifth anniversary of his coup, in April 1985. He said he intends to lift a ban on political activity next month and hold elections next year.

Mr. Doe's government is unpredictable in both its policies and the enforcement of laws.

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French Group Creates Self-Elevating Oil Rig

New York Times Service

DUNKERQUE, France — A state-owned maritime engineering company based in this northern French port has developed the first self-elevating offshore oil platform able to work all year in stormy waters.

The new platform, the product of Cie. Francaise des Entreprises Metalliques, represents a technological breakthrough of some magnitude, according to experts in off-shore oil exploration.

So far, the company has built two of the new platforms, the Glomar Labrador I and the Glomar Moray Firth.

The Glomar Labrador I, launched from here last October, completed its first winter working for Home Oil Co. in the North Atlantic, 300 miles (480 kilometers) east of Halifax, Nova Scotia. Drilling was conducted from the platform all winter, despite 100-mile-an-hour winds and waves more than 50 feet (15 meters) high.

That performance, analysts say, was a first for the self-elevating, or "jack-up," platforms, as they are called. The jack-ups differ from the larger, fixed-location platforms in that they can be towed from site to site as oil fields become depleted.

They are also far less expensive than the fixed rigs. For construction, installation and maintenance for one year, the Glomar Labrador I cost about \$75 million. A fixed

rig, experts say, could cost at least \$100 million.

But until the construction of the Glomar Labrador I, the jack-ups had to be towed back to port from November through April, when winter storms could wreck the rigs.

The French company hopes to capture a sizable portion of the market for oil exploration needs in the North Sea area.

But worldwide demand for both self-elevating and fixed platforms has declined sharply in recent years, partly because of a construction boom in the early 1980s that saturated the market. Also, because of the current oversupply of oil, crude prices have fallen and fewer new wells are being drilled.

The Glomar Labrador I was purchased by Global Marine Inc. of Houston, then leased to Home Oil, which is based in Calgary, Alberta.

The second self-elevating platform, the Glomar Moray Firth, has also been bought by Global Marine and will begin drilling for Gulf Corp. off the Norwegian coast early in June.

This new generation of platforms is intended for use in small oil and natural gas fields that may be exhausted after a few years, or even a few months, of drilling.

As the larger oil and gas deposits around the world are depleted, oil companies are showing a greater interest in exploring the marginal fields.

NEW YORK (AP) — The following quotes from the National Association of Securities Dealers, Inc., are the prices of which these securities are quoted in the New York Stock Exchange.

NYSE LISTED STOCKS

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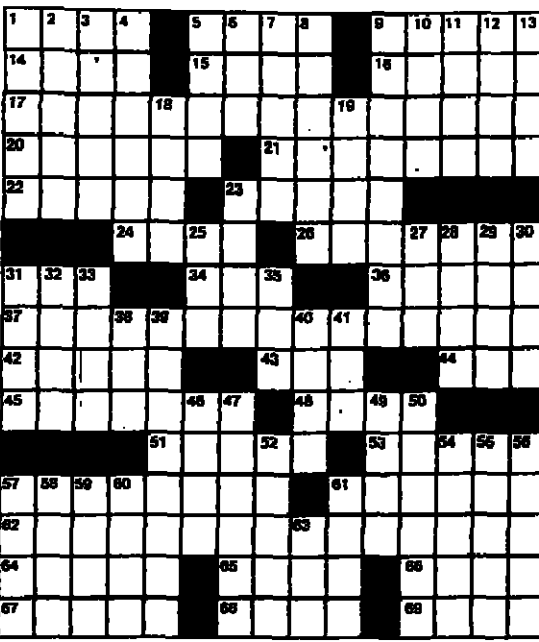
NYSE LISTED STOCKS

Over-the-Counter

[illegible]

For the Week Ending June 8, 1984

Option & price									
Calls					Puts				
Symbol	Price	Volume	Open	High	Symbol	Price	Volume	Open	High
AA	1.10	10	1.00	1.10	AA	1.10	10	1.00	1.10
AB	1.10	10	1.00	1.10	AB	1.10	10	1.00	1.10
AC	1.10	10	1.00	1.10	AC	1.10	10	1.00	1.10
AD	1.10	10	1.00	1.10	AD	1.10	10	1.00	1.10
AE	1.10	10	1.00	1.10	AE	1.10	10	1.00	1.10
AF	1.10	10	1.00	1.10	AF	1.10	10	1.00	1.10
AG	1.10	10	1.00	1.10	AG	1.10	10	1.00	1.10
AH	1.10	10	1.00	1.10	AH	1.10	10	1.00	1.10
AI	1.10	10	1.00	1.10	AI	1.10	10	1.00	1.10
AJ	1.10	10	1.00	1.10	AJ	1.10	10	1.00	1.10
AK	1.10	10	1.00	1.10	AK	1.10	10	1.00	1.10
AL	1.10	10	1.00	1.10	AL	1.10	10	1.00	1.10
AM	1.10	10	1.00	1.10	AM	1.10	10	1.00	1.10
AN	1.10	10	1.00	1.10	AN	1.10	10	1.00	1.10
AO	1.10	10	1.00	1.10	AO	1.10	10	1.00	1.10
AP	1.10	10	1.00	1.10	AP	1.10	10	1.00	1.10
AQ	1.10	10	1.00	1.10	AQ	1.10	10	1.00	1.10
AR	1.10	10	1.00	1.10	AR	1.10	10	1.00	1.10
AS	1.10	10	1.00	1.10	AS	1.10	10	1.00	1.10
AT	1.10	10	1.00	1.10	AT	1.10	10	1.00	1.10
AV	1.10	10	1.00	1.10	AV	1.10	10	1.00	1.10
AW	1.10	10	1.00	1.10	AW	1.10	10	1.00	1.10
AX	1.10	10	1.00	1.10	AX	1.10	10	1.00	1.10
AY	1.10	10	1.00	1.10	AY	1.10	10	1.00	1.10
AZ	1.10	10	1.00	1.10	AZ	1.10	10	1.00	1.10
BA	1.10	10	1.00	1.10	BA	1.10	10	1.00	1.10
BB	1.10	10	1.00	1.10	BB	1.10	10	1.00	1.10
BC	1.10	10	1.00	1.10	BC	1.10	10	1.00	1.10
BD	1.10	10	1.00	1.10	BD	1.10	10	1.00	1.10
BE	1.10	10	1.00	1.10	BE	1.10	10	1.00	1.10
BF	1.10	10	1.00	1.10	BF	1.10	10	1.00	1.10
BG	1.10	10	1.00	1.10	BG	1.10	10	1.00	1.10
BH	1.10	10	1.00	1.10	BH	1.10	10	1.00	1.10
BI	1.10	10	1.00	1.10	BI	1.10	10	1.00	1.10
BJ	1.10	10	1.00	1.10	BJ	1.10	10	1.00	1.10
BK	1.10	10	1.00	1.10	BK	1.10	10	1.00	1.10
BL	1.10	10	1.00	1.10	BL	1.10	10	1.00	1.10
BM	1.10	10	1.00	1.10	BM	1.10	10	1.00	1.10
BN	1.10	10	1.00	1.10	BN	1.10	10	1.00	1.10
BO	1.10	10	1.00	1.10	BO	1.10	10	1.00	1.10
BP	1.10	10	1.00	1.10	BP	1.10	10	1.00	1.10
BQ	1.10	10	1.00	1.10	BQ	1.10	10	1.00	1.10
BR	1.10	10	1.00	1.10	BR	1.10	10	1.00	1.10
BS	1.10	10	1.00	1.10	BS	1.10	10	1.00	1.10
BT	1.10	10	1.00	1.10	BT	1.10	10	1.00	1.10



ACROSS

1 Encounter
5 Tender
9 S.R.O. show
14 Can. province
15 Literary Lamb
16 Bingo relative
17 Astronaut/
bandleader
20 Unfolded
21 Substitutes
22 Rent again
23 Existence
24 Pro—(in
proportion)
26 Holy
31 Mad—
batter
34 Mineral
deposit
36 Water wheel
37 General/Oscar
winner (1975)
42 Spinal cord
43 Omb. form
44 One of
Mickey's exes
45 Legume
46 Willow twigs
48 Rainbow
goddess
51 Bullion
53 Pursue
57 Michael
Jackson's
pained
collection
61 Seethed
62 Oscar winner
(1984) "Star
Wars" star
63 D.C.V.I.P.

DOWN

1 Barbara or
Hoople
2 Run to wed
3 Waters or
Merman
4 Roscoe of
tennis
5 Tuesday in
Hollywood
6 Drink on
draught
7 Washer cycle
8 Praying
9 Ecological
thrower's
activity
10 Pattern
11 King of the
Huns
12 Garbo
13 "I—Kick
Out of You"
18 "Give"
horse...
23 Unadorned
25 Young child
27 Neighbor of
Sword
28 Snare
29 One, to Fritz
30 Computer
input
31 "A Farewell to
you"
32 Salty sauce
33 Cain's victim
35 Guido's high
note
38 Building wing
39 Shaver of
lodgings
40 Satan's
41 Corn unit
46 Dam
47 Sound
equipment
48 Religious
image
49 Changes
50 Notch
standing
54 Hello greeting
55 Ecologically
changing
56 Murphy or
Albert
57 Luggage piece
58 An anagram
for rodeo
59 Losers in W.W.
II
60 Units of
conductance
61 Pro-
publico
63 D.C.V.I.P.

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PEANUTS

I FAILED, MARCIE! I
WON'T BE IN YOUR CLASS
NEXT YEAR. YOU WON'T
BE SITTING BEHIND ME...

WHO'S GOING TO WAKE
YOU UP WHEN YOU FALL
ASLEEP AT YOUR DESK?

WHO'S GOING TO TAKE
THE LOOSE-LEAF BINDER
OFF YOUR HEAD WHEN
IT GETS TANGLED
IN YOUR HAIR?

WHEN WE HAVE
TESTS, WHO'S
GOING TO GIVE
YOU ALL THE
ANSWERS?

CITIES AND THE WEALTH OF
NATIONS: Principles of Economic
Life

By Jane Jacobs. 257 pp. \$17.95.
Random House, 201 E. 50th St.,
New York N.Y. 10022.

Reviewed by Jonathan Yardley

READERS coming to Jane Jacobs' new book with fond memories of her first, "The Death and Life of Great American Cities," will be both reassured and surprised. The reassurance lies in Jacobs' continuing commitment to the city as the most productive and desirable setting for human life. The surprise is that while the first book was largely the result of first-person observation, "Cities and the Wealth of Nations" is almost entirely theoretical, much of it densely argued and some of it difficult to follow.

But it is also a provocative and rewarding book. It challenges comfortable assumptions in a manner that is neither rancorous nor contentious. For a book that gets down to basics it is remarkably oblivious to political realities, but at times it is serious, thoughtful, humane.

It is also gloomy. Jacobs believes, and certainly the evidence supports her, that the reality of the time is not a curve confidently drawn in a university or think-tank but stagnation, "a combination of rising unemployment and inflated prices" which defies all the curves and theories of economists. The myth that economies can be fine-tuned has been proved to be just that: a myth. The prospects are unpleasant.

"I cannot see any way of understanding stagnation except as a normal consequence of economic stagnation, just as backwardness and low productivity are other normal consequences of stagnation. If I am correct, the emergence of stagnation in formerly developing and expanding economies is appalling in its implications and portents. It is not just a problem of inflation to be gotten under control along with a problem of unemployment to be dealt with by mastering inflation, or vice versa. It is a condition in its own right, the condition of sliding into profound economic decline."

Jacobs is less generous with remedies than with analysis. A central contention of her book

is that the ground rules are wrong. Instead of assuming that nations, which are "political and military entities," are also "the basic, natural entities of economic life," Jacobs argues, and most persuasively, that the actual shape of economic life is the city, cities being "unique in their abilities to shape and reshape the economies of other settlements."

It is a strong argument for the simple reason that nations are fundamentally artificial and unmanageable in nature, while cities are the results of natural processes of political, social and economic evolution. Cities, being both "diverse and concentrated" are "uniquely necessary to economic life," Jacobs explains why.

"Their vital functions are to serve as primary developers and primary expanders of economic life, functions that work not in the least like perpetual motion. They require constantly repeated inputs of energy in two specific forms: innovations, which at bottom are inputs of human insight; and ample replacements of imports, which at bottom are inputs of the human capacity to make adaptive imitations. The usefulness of cities is that they supply contents in which those inputs—insights and adaptations—can be successfully injected into everyday economic life."

This second process, of "import-replacing or import-substitution," is the key to Jacobs' interpretation of the growth of city economies, and it is what she believes must be encouraged if cities are to revive and prosper. For example, instead of importing products, colonial American cities began "replacing" these imports with their own variations leading to the establishment of other firms that provided products needed by retailers, and in turn "these" firms produced other firms that provided supplies. The end result was self-sufficient economies.

This is a natural process, Jacobs says. It can't be created by the mandates of national governments or by hands from foreign countries. "Development is a do-it-yourself process; for any economy it is either do it yourself or don't develop. All of today's highly developed economies were backward at one time, yet transcended that condition." Therefore she is impatient with theories and programs, with the predictions and projections of economists. You can't plan an economy, she says, and points most tellingly to Russia and China as good positive; she prefers the development of an economy seen as "open-ended rather than goal-oriented," and in which prosperity "depends on fostering creativity in whatever forms it happens to appear in a given city at a given time."

"Cities and the Wealth of Nations" is given to a certain amount of vague generalization and excess of idealism. Perhaps the most glaring flaw is Jacobs' failure to recognize the political dynamics of cities and the various difficulties they create. Although it has weak spots, its strengths are far greater, and among them are: Jacobs' analysis of the rise and decay of city economies; her challenge to the received economic wisdom; her clear-eyed view of the relationships between cities and the nations to which they are hostage.

Jonathan Yardley is on the staff of The Washington Post.

BEETLE BAILEY

PACKAGE FROM MOM
OH, BOY! I'M HUNGRY!

PAIR OF SHOES
WELL, ER, UM, I SEE...

LET ME BUY YOUR FIRST ONE
TWO, THREE, FOUR, FIVE, SIX, SEVEN, EIGHT, NINE, TEN, ELEVEN, TWELVE, THIRTEEN, FOURTEEN, FIFTEEN, SIXTEEN, SEVENTEEN, EIGHTEEN, NINETEEN, TWENTY, TWENTY-ONE, TWENTY-TWO, TWENTY-THREE, TWENTY-FOUR, TWENTY-FIVE, TWENTY-SIX, TWENTY-SEVEN, TWENTY-EIGHT, TWENTY-NINE, THIRTY, THIRTY-ONE, THIRTY-TWO, THIRTY-THREE, THIRTY-FOUR, THIRTY-FIVE, THIRTY-SIX, THIRTY-SEVEN, THIRTY-EIGHT, THIRTY-NINE, FORTY, FORTY-ONE, FORTY-TWO, FORTY-THREE, FORTY-FOUR, FORTY-FIVE, FORTY-SIX, FORTY-SEVEN, FORTY-EIGHT, FORTY-NINE, FIFTY, FIFTY-ONE, FIFTY-TWO, FIFTY-THREE, FIFTY-FOUR, FIFTY-FIVE, FIFTY-SIX, FIFTY-SEVEN, FIFTY-EIGHT, FIFTY-NINE, SIXTY, SIXTY-ONE, SIXTY-TWO, SIXTY-THREE, SIXTY-FOUR, SIXTY-FIVE, SIXTY-SIX, SIXTY-SEVEN, SIXTY-EIGHT, SIXTY-NINE, SEVENTY, SEVENTY-ONE, SEVENTY-TWO, SEVENTY-THREE, SEVENTY-FOUR, SEVENTY-FIVE, SEVENTY-SIX, SEVENTY-SEVEN, SEVENTY-EIGHT, SEVENTY-NINE, EIGHTY, EIGHTY-ONE, EIGHTY-TWO, EIGHTY-THREE, EIGHTY-FOUR, EIGHTY-FIVE, EIGHTY-SIX, EIGHTY-SEVEN, EIGHTY-EIGHT, EIGHTY-NINE, NINETY, NINETY-ONE, NINETY-TWO, NINETY-THREE, NINETY-FOUR, NINETY-FIVE, NINETY-SIX, NINETY-SEVEN, NINETY-EIGHT, NINETY-NINE, ONE HUNDRED, ONE HUNDRED-ONE, ONE HUNDRED-TWO, ONE HUNDRED-THREE, ONE HUNDRED-FOUR, ONE HUNDRED-FIVE, ONE HUNDRED-SIX, ONE HUNDRED-SEVEN, ONE HUNDRED-EIGHT, ONE HUNDRED-NINE, TWO HUNDRED, TWO HUNDRED-ONE, TWO HUNDRED-TWO, TWO HUNDRED-THREE, TWO HUNDRED-FOUR, TWO HUNDRED-FIVE, TWO HUNDRED-SIX, TWO HUNDRED-SEVEN, TWO HUNDRED-EIGHT, TWO HUNDRED-NINE, THREE HUNDRED, THREE HUNDRED-ONE, THREE HUNDRED-TWO, THREE HUNDRED-THREE, THREE HUNDRED-FOUR, THREE HUNDRED-FIVE, THREE HUNDRED-SIX, THREE HUNDRED-SEVEN, THREE HUNDRED-EIGHT, THREE HUNDRED-NINE, FOUR HUNDRED, FOUR HUNDRED-ONE, FOUR HUNDRED-TWO, FOUR HUNDRED-THREE, FOUR HUNDRED-FOUR, FOUR HUNDRED-FIVE, FOUR HUNDRED-SIX, FOUR HUNDRED-SEVEN, FOUR HUNDRED-EIGHT, FOUR HUNDRED-NINE, FIVE HUNDRED, FIVE HUNDRED-ONE, FIVE HUNDRED-TWO, FIVE HUNDRED-THREE, FIVE HUNDRED-FOUR, FIVE HUNDRED-FIVE, FIVE HUNDRED-SIX, FIVE HUNDRED-SEVEN, 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